HOW·TO·GET·AHEAD

ALBERT · W · ATWOOD

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Saving Money and Making
It Work

By
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INDIANAPOLIS
THE BOBBS-MERRILL COMPANY
PUBLISHERS

Printed in the United States of America

PRESS OF
BRAUNWORTH & CO.
BOOK MANUFACTURERS
BROOKLYN, N. Y.

There are some men who save because of fear of what the future may hold in store. However, this class does not achieve the greatest success. Strong men, confident of their own abilities, prepare for opportunities as well as emergencies. They save to win.

—*Odd Lot Review.*

Remember that money is of a prolific, generating nature. Money can beget money, and its offspring can beget more, and so on. Five shilling turned is six, turned again it is seven and three pence, and so on till it becomes one hundred pounds. The more there is of it the more it produces every turning, so that the profits rise quicker and quicker.

—Benjamin Franklin.

INTRODUCTION

The purpose of this book is to help young men and women of moderate earning capacity to save and invest money. Incidentally its aim is to show the advantages of thrift. The main purpose is the practical one of explaining actual, workable methods of saving and investment. There has been enough preaching, enough exhortation. What is wanted at this time is a simple statement, not so much of *why*, as *how*.

As I conceive it, the investment of money is fully as important as mere economy. Frugality never gets anywhere unless the money is safely put to work afterward. Money may be kept in an old tin can or a broken-down stove without the owner having any knowledge of investment, but bills and coin hidden in that way are pretty sure to be lost, destroyed or stolen. Besides, in a generation's time, invested money doubles itself, and as long as your money can be made to earn interest, why not be the gainer?

Thousands of people are able to save and yet have never made a successful investment. I believe the one process is no harder than the other, provided a few simple principles are understood. So I have devoted half this book to methods of saving and half to the general subject of putting money to work, which in-

cludes the use of bank-accounts, life insurance and home owning, as well as the purchase of bonds, mortgages and stocks.

Experience plainly indicates that true economy is far more difficult than the actual earning of money. It may seem a paradox, but a moment's reflection shows that saving is all a question of spending. Saving money merely to have it, to keep it, is about the most despicable trait a human being can display. There is only one object in economy for any decent person, and that of course is to have the money to spend when you really need it or want it for a useful object.

There is no great secret about earning money. Of all pursuits it is the simplest and most obvious, provided one will take the proper, well-understood steps. It is an occupation in which almost any diligent, earnest, persistent person may hope to get on. There is nothing indefinite or intangible about it. There is no will-o'-the-wisp or phantom, such as baffles the man or woman who seeks to become a great artist, poet, inventor, scientist or statesman.

But it is a hard task to spend money judiciously after having earned it. We all know that many of the most industrious and successful workers are the most foolish when it comes to spending money. It takes a lot of planning and ordering of one's earnings

to get the most out of them. It takes system and thought and will power. Spending money wisely is about the most difficult work there is. It is something that can't be figured out in dollars and cents, like business profits, because there are all kinds of people in the world with unlike temperaments, and what would be rank extravagance for some are necessities for others. Then, too, the spending of money has been haphazard ever since mankind had money at all, whereas earning money has long been a science. The latter is constantly being specialized and subdivided, but the housewife's expenditures still cover the whole range of living. Business and professional men and women are all more or less specialists in their work, but how many have had any special training in spending money? Yet just because it is hard work to use money to the best advantage are you going to give it up?

I do not need to say that if intelligent spending is less common than the earning of money, sagacious investment seems to be more difficult than either. Nothing is more frequent than the sight of a man who has made a fortune in a business he knows something about losing it in a venture he knows nothing about. Almost all rich men leave estates with thousands of shares of worthless stocks.

This little book aims, then, to throw light on one of

the hardest problems that men and women have to face. From a personal, individual point of view, and from that alone, the subject is approached. But let us not forget, in this absorbing pursuit—this learning how to save and invest money—that nations have precisely similar problems. I believe that if the individual learns economy nations will do the same.

It has been proved often that poverty of resources and adversity of natural conditions breed in a people thrift and its resultant virtues. What is true of individuals is equally true of races and nations. When shiftless, poverty-stricken negroes are taught trades and begin to save and accumulate land and property crime decreases, they become law-abiding citizens and win the respect of white neighbors. The early American colonists had to fight hard to gain a foothold on a new continent, and the habits of thrift gained in the struggle for existence kept them and their descendants vigorous for more than a century. Great wealth of natural resources, ease of acquiring a living and long cycles of prosperity breed habits of waste and decay. When mad extravagance took the place of foresight and care among the Romans, that nation crumbled and fell to destruction. This country has become prodigal of its vast resources. Extravagance has come to reign supreme.

A party of Belgians traveling from New York to

Chicago were astounded at the signs of waste on every hand. They spoke of the unused land, lumber, crops; and then after they had visited several cities, declared that the waste of men was fully as great. Extravagance in this country is a national menace, for remember that every dollar thrown away is either the product or equivalent of human labor, and so must in the long run be paid for by hard work.

Waste is a tax on the whole people. If a man puts up a building to manufacture a silly and unnecessary luxury, the maintenance of that building is a tax upon the population, because the money that went into that building and goes every year into keeping it up, might otherwise have been invested in something useful and beneficial.

But when it seemed that our people had almost reached the last word in wanton waste and foolish expenditure, a stupendous war broke out across the sea, destroying wealth on a scale never before conceived possible. It was at once realized that unless the world should go bankrupt it must immediately begin to save where it could. Relatively only had Europe been less extravagant than America, and perhaps only in a different direction.

"Never was the necessity for saving so great, so imperative and relentless as in Europe at this time, being, in fact, no less important than valor," said

The New York Times after the war had gone on for just a year, "and never perhaps in a thousand years was thrift less fashionable in the world than in the years just preceding the war. Individuals, corporations and governments were all extravagant. Private and public expenditures were limited only by the means, and as the means were enormously greater than ever before in the world's history, and multiplying faster, expenditures may be said to have been until now unlimited."

But there is probably no known measure of what people can save, what they can do without, when they begin to try. That is so because no nation has ever attempted it since the modern era of machine production set in. A great majority of people consume all they produce, and it is the difference between production and consumption that makes capital.

When the war began it was quickly seen that this country could no longer borrow billions of dollars from Europe, as formerly, to finance its railroads and industrial plants. It was seen that hereafter, for many years to come, we must finance ourselves. Indeed our bankers grasped the fact that America might become the world's financial center if only our people would save enough capital.

It is the *millions of workers,* the savings-bank depositors, you and I, who create capital, or financial

power, not the *millionaires* or the financiers. We, by our labors, make the bulk of it. Upon our savings America must depend for its future prosperity, for its supreme independence and leadership. What can the individual do about national waste and extravagance, about "conservation of natural resources," about "scientific management" and the high cost of living? Nothing, except to stop extravagance in his own life, to go without a great many unnecessary and useless things whose cost is high.

Once this country economized until it grew rich. There are a few signs that, because of the strain and shock of the Great War, we are returning to our financial senses. But there is the danger, very great indeed, that with the rush of prosperity which the second stage of the war has brought upon us, the torrent of "war orders," we shall soon forget the brief lessons of the fall of 1914. When all goes well, when the sun is shining and money and employment are plentiful and the future seems assured, thrift is unpopular, or perhaps it is forgotten. Men wait until rainy days come. But it is just at such times, when wages are high, profits enormous and expenses inflated that men have a *chance* to save.

There is every kind of opportunity in this country to-day. Americans have not had to serve as soldiers the best part of their lives or live on the paltry pay

of an ingrowing, overpopulated country. Europe is being forced to save because of dire necessity, because of fear. As if by magic this country has become the most prosperous on earth. But sudden prosperity will not last forever. It is fortunate indeed that this year of 1916 marks the close of the first century of savings-banking in America, and it should be chosen as an occasion to teach and preach thrift the country over!

"The average man feels that he is a worthy citizen," says the *Odd Lot Review,* "when he casts his vote regularly and to the best of his intelligence, supports himself and dependents and endeavors to live up to the requirements of the law. If, in addition, he is ready to volunteer at the call to arms, he believes himself a patriot of the first water. These characteristics are admirable and to be respected, but they are not sufficient in themselves.

"The individual may feel that his life is the greatest sacrifice he can make for his country and must, therefore, be the most that man can possibly offer. This is admittedly true in the actual eventuality of war. But the fallacy of the reasoning lies in the simple fact that, nine times out of ten, the departure of this individual for the seat of activities imposes upon his country the maintenance of those dependents for whom he is, of course, no longer able to pro-

vide. He willingly risks his life, but at the same time leaves behind a cancer which immediately starts to gnaw at the country's most vital point—its financial resources.

"That man who saves and invests to the utmost and continually, is a far better citizen and much more valuable to his country than the above type. He has incomparably more to offer in time of emergency. His life can be offered without reservation. It has no strings attached to it.

"The highest duty of the individual to his nation is to place himself in the position where he will be able to render the greatest possible service if occasion should arise. Saving and investment are essential for the accomplishment of this purpose."

If this book, by assisting a few young men and women to save and safely invest their earnings, can do even a tiny part toward this mighty purpose, I shall feel more than repaid.

A. W. A.

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CHAPTER I

MONEY—ITS USE AND ABUSE

DON'T pretend to despise money. Because if you do people won't listen. Ninety-nine out of a hundred of them are striving for it—and they know you are. Even the minister who preaches the gospel of self-sacrifice is moved to take his message elsewhere by the offer of a larger salary. Why? Money is the only thing that will procure him the necessities, and even many of the higher things of life.

Among the savages there is no need of money, and when the millennium arrives there will probably be none of it. But in the world as it exists to-day and for a long time to come, money is the universal yardstick by which are measured the material necessities, comforts and luxuries of life, and even education, art and literature.

Usually we do not pay for air, although in the

cities we pay for space. Good water costs something in the cities and so does land to stand upon. A man may go into the wilderness and have air, water and land for nothing, but his gun and ax cost money. You can not get away from it. There is no living without money unless one becomes an utter savage.

What is money? We can not say whether it is good or bad until we know what it is. Money has several uses or functions, but it has one great fundamental use that far transcends all the others in importance. As the economists say, it acts as a "medium of exchange." This means that if I have two barrels of potatoes and want an ice-box which another man has, it is not necessary actually to exchange the ice-box for the potatoes, a most cumbersome and difficult thing to do. Instead, "money" passes between us.

The first difficulty in exchanging an ice-box for two barrels of potatoes is that the two owners may not live anywhere near each other and it would take much time and trouble to bring them together. The second difficulty is that you can hardly measure ice-boxes in terms of potatoes. It would be easy enough if there were nothing in the world but those two articles, but

there are thousands upon thousands of different things, and how is the owner of any one to know what it is worth in terms of all the others? I may produce nothing but potatoes. That is all I have to offer the world in return for hundreds of necessities and luxuries I may want or need. But just imagine the confusion if all those goods had to be exchanged for potatoes and for one another.

But once all people agree upon a single commodity which they will exchange for all other commodities, the whole business is simplified. I sell my potatoes for money and lay the money by until I want the other articles and *buy* them with money. Thus money is an absolute necessity unless we go back to savagery, or unless the government takes over everything, makes all people work for it and passes out food and clothing by a ticket system. Even then, the tickets would be in a sense a form of money.

This brief explanation of money should make clear what is its use and what its abuse. It is merely a means of exchange for other articles. Consequently there is no advantage of getting too much of it because no one human being can use more than a reasonable amount of necessities, comforts and luxuries. It is equally bad

to have too little money, because that plainly indicates that one has not been doing his full share in producing the goods which mankind needs. The man who has no money is all right on a desert island. But in a modern, civilized, industrial community he is usually an ordinary loafer. If scenery is all he wants, he usually stands on the land some other man has worked for, to view it. Most commonly he is just a dependent, living on some one else's money.

Those who love money for itself, those whom we call misers, are probably afflicted with a form of insanity or disease. Money is all right to touch, handle and use, but if it sticks, then it is dangerous. The Greeks said: "Gold has no smell." If money affords more than a momentary pleasure in handling, then go to your doctor, for you have some strange disease. Remember that money has only one important use, to exchange for goods. There is something abhorrent, abnormal, morbid, in loving money for its own sake. Money is wholly a *means*, never an *end*.

Business men especially need to keep this distinction in view. Constantly dealing in money, balances and profits concentrates the attention upon money to such an extent that one's view-

point may easily be warped. William Felsinger, president of one of the great savings-banks in New York City, recently said that the big men of to-day are those who realize that money is only a recognized means for carrying on a work of real worth. There are not many misers in the old-fashioned sense among leading business men, in his opinion.

"To the man who has accumulated money through some big enterprise," said Mr. Felsinger, "that mass of money merely signifies and stands for what he has done. The accumulation of money itself means nothing and none are so poor as those who think so. If a man could keep on working and having enough for his needs, that man would have a fortune stored up within himself. But some die in harness and others must rest, so it is necessary to save."

There are a few people who see no good in saving and investing money. Such people defend extravagance and waste by saying that it puts money into circulation, which is one of the most pernicious fallacies I know of. As I have already pointed out, money exists only to be used, but it should be spent in a useful, productive, sane and healthful manner.

Spending money for foolish objects is never

justified by saying that it makes work for milliners and dressmakers. For if there were no extravagant hats the milliners who build them would be engaged in more useful work, and the money spent on feathers would go into other channels. It is a question whether one man shall own a costly luxury or whether many persons shall have more of the necessities of life.

Of course if you buy a hat ten times more expensive than is necessary you are creating employment. But it is far better to create employment for useful purposes. It is far better for a country to spend money for wheat and iron ore and lumber than it is for the newest styles. What we want to do is to increase the necessities and comforts of life, not the foolish luxuries.

A so-called philosopher once said: "If the rich do not spend, the poor die of hunger.'" This fallacy was back of conditions that brought on the French Revolution. Saving is spending, but it is for the future rather than for the present. It causes the production of permanent goods usually rather than the mere satisfaction of transient and temporary pleasures. The trouble is that people confuse money with what is back of it. They see that spending increases

trade, but fail to see that investing money increases trade just as much.

People talk as if the great thing were to make work, anything to make work for somebody. But work itself is a means, not an end. Work is a means to gratify legitimate wants, desires. The aim of mankind, materially speaking, is to expand the proper desires and gratify them. But you can't gratify desires unless there is capital for further production of goods, and there is no capital without saving. It is impossible to replace worn-out machines, to keep railroads efficient, to restore losses, without saving.

Just carry the idea that spending money is better than saving it to a logical conclusion. Suppose everybody spent money for pleasures. Then there would be no capital for the building of factories, railroads, mines and farms. There would be nothing to eat. Suppose on the other hand everybody saved money and put it into the bank or took pains that it went only into necessities and comforts. There would be no theaters, no fancy clothes, no candy, gum or luxuries of any kind. That would be a hard life indeed. But there would be plenty to eat and wear. At least we could live, and there would

be more food for the poor. In the other case there would be nothing to live on at all. Both logical extremes are absurd, but they show the fallacy of the spending for luxury argument.

Perhaps you never stopped to realize that every time you deposit a dollar in a bank or invest it in some legitimate and useful enterprise you not only help some one to get and keep a job, but a useful job. Every dollar you bank or invest provides work for somebody.

May not a thorough grasp of this elementary but vital fact stimulate some incapable of being induced to economize by purely selfish arguments? The moment you deposit money in the savings-bank you become an employer. You attain a new dignity. You become a factor in the economic life of the country. You help to make the wheels of progress revolve. You are no longer a nonentity. You are somebody. You are an investor. Your income, moreover, is not confined to the labor of your hands or your head. Your money is working for you.

Of course banks lend their deposits out to business men to use. It is in this way that the smallest depositor becomes a capitalist, whether he realizes it or not.

Either through the savings-bank or by direct

investment a very considerable part of the savings of the thrifty goes into railroads, manufacturing companies, or real-estate mortgages, thus becoming a great factor in commercial activity and the building of homes and cities.

Under present conditions it is the possibility of accumulating money that lures men on to strenuous endeavor. It is this possibility that leads men to search out new inventions and discoveries, that makes for material progress. No other stimulus to labor and efficiency has ever been more powerful. We have no other tried means to serve as incentives to produce the masses of capital—the tools, the machines, the ships, the railways, the buildings—essential to modern life. We have no other tried means to bring this about, I say, except the effort needed to save money.

Then, too, the possibility of accumulating money makes for law and order. In Oriental despotisms and certain Spanish-American "republics" we find a few despots supported by the toil of a beggared populace. People as a whole have no opportunities to save money and there is a never ending cycle of riot and bloodshed with the countries hundreds of years behind the times, morally and politically. Whereas

nations which have contributed most to the world's progress of the last four hundred years have been those in which there existed a strong, virile middle class able to accumulate property.

"The propertied man is seldom an enemy of law and order," says Doctor Willford I. King. "He does not favor revolution, for he has something to lose. True, he may be too conservative, but history does not show that those nations have advanced most in which revolution has been most frequent. The nations most free from internal strife and bloodshed are those in which a large fraction of the people have possessed some considerable property."

CHAPTER II

REAL AND UNREAL WANTS

I AM inclined to think that one great secret of being able to save is to know what you want and what you don't want. Knowing how to employ most efficiently the money which you do spend is also very important, but first and most essential is to *learn to know most emphatically what you don't want.* Never get into the habit of saying: "I can't afford it." Have the strength of character to say: "I don't want it."

How many people know what they actually desire? Do you know what you want, why you want it and what you expect to do with it? Hard thinking, and sometimes long thinking, is needed to learn what your needs are. But don't be afraid to think. People who keep repeating that they can not afford this or that proper and wholesome object kill within themselves ambition and narrow their minds. Skinflint economy is the most wasteful extravagance. But most objects of pleasure for which

we spend money are not worth having. Things which are really worth having, that we desire intensely or need insistently, can usually be had if we are willing to pay the price of physical and mental effort.

Nothing so confines our growth as to repeat continually that we "can't afford" worthy and desirable things. The wealth of the universe is hardly more than scratched, and efforts devoted to constructive, progressive money-making are sure to bring great results. No man should get the idea that his income is forever fixed. It is both wise and necessary to get enjoyment out of life as we go along. Those who live only for the future may find their capacity for enjoyment utterly gone when the future becomes the present. A good rule is to live respectably and save a little, and if you can also live respectably and save a good deal, so much the better.

Charles Naeher is president of one of the big savings-banks in a large eastern city. He came to this country more than sixty years ago, and he reached his present position by a combination of ability and thrift. He did not increase his expenses when his income grew larger.

"But I always lived well," said Mr. Naeher in

a recent interview. "My family had good substantial food and clothing, all the comforts, but somehow I never could enjoy spending money foolishly. I still wonder at the lavish display in restaurants and the silly vanity of those who ape the rich."

Liberal expenditure is not inconsistent with saving—quite the contrary. There is a tremendous difference between intelligent, liberal expenditure and foolish extravagance. But miserly stingy expenditure tends, strangely enough, to limit a man's income. Misers almost never grow very rich because all their energies are concentrated on saving a penny. A miser once walked nearly half-way across the continent on a necessary trip to save car fare. The time he consumed was worth far more than car fare to any trained worker.

"But how is this?" I hear some one ask. "This fellow is not very consistent. A moment ago he was urging us to save, and now he says the best way to save is to spend."

Well, there is no inconsistency in that advice. Of course I am urging no one to live beyond his means in the hope of making it up from a larger income later on. What I would hammer into the consciousness of every young man and

woman in the land is the necessity of learning to say NO to extravagance, and YES to what is worth while. Liberal expenses for useful purposes, provided they are within the limits of one's income with some margin left over for regular savings, have the tendency to raise men and women to positions of higher responsibility and larger money-making capacity.

But don't be afraid of people calling you names. YOU know whether your qualities are those of the "tightwad" and "piker." Spending money just to impress a hotel clerk, a dining-car waiter, a cabman, or from a miserable and petty fear of supposed public opinion, brings in no returns. Don't spend money to show off.

"Rather than be looked upon as tightwad," says a writer in *The Silent Partner*, a bright little magazine full of practical helpfulness, "I have seen poor traveling men pay for a high-priced room at a hotel before they would ask the clerk what the rate was.

"You are not out on exhibition—you are out on business.

"Why try and make a hit with the hotel clerk? Why try to impress the dining-car waiter? Why show off in the smoker? Why

not get the orders—sell the goods? Then come home and let the firm show you off.

"In a dozen ways each day the 'Easy Mark' pays an extravagant price in preference to being called a 'piker.' And most of these men are right where they were twenty years ago—only they owe more."

I believe that extravagance has become more than a mania. It is a sort of disease. It indicates a decline in character, a fatty degeneration of the moral fiber, almost more than a lack of financial sense. It is the "easiest way," the "line of least resistance." It is certainly contagious. It becomes a fixed habit.

If young men would only stop to think that extravagance most often leads to the excesses which undermine character! It is seen at its worst in a mining-camp where every one spends freely and no one obeys the law. Most defalcations begin with extravagance. Surely it is the road to ruin. And why are most people so prodigal? To buy things they really don't want. Chiefly is money wasted to make a vain show. At least that is the opinion of Julius Rosenwald, Chicago millionaire, philanthropist and head of a great business. Is it not the common observation of all of us?

But vain show fools no one. It defeats itself. Even the spendthrift recognizes a fellow-being who is living beyond his means and thinks none the better of him. It must always be remembered that a good spender is a good fellow only as long as his money lasts. Economy really makes more friends in the end because one's money lasts longer.

One of the worst features of showing off is that people delude themselves into defending it, into thinking it is warranted. It is sometimes said in favor of one of the larger excesses—jewelry—that diamonds are a good investment. That is, people think they will be able to sell their jewels if they can not afford to keep them. But aside from the fact that I don't believe any one ever sold a ring, or pin, or expensive watch for as much as he or she paid for it, there is the further fact that money invested in jewelry earns no interest. Extravagance brings in no return. Money saved is not only kept, but it continues to work for its owner. The earning power of money which is spent is given up for all time. It is destroyed.

I think more money is foolishly lavished upon clothes than upon anything else. But this seems to be more a matter of poor taste and

ignorance than of failure to recognize true wants from false ones.* The one great example of money wasted for things that people do not really want is described by the word amusements, using it in its broadest sense.

It has become fashionable to take up every new and silly fad. We do not wait to see whether this or that new game will minister to our permanent pleasure or welfare, but just because an acquaintance has sampled it we must take expensive lessons, while perhaps the grocer's bills go unpaid. The happiest people are those who take their amusements calmly, and not too often or too much of them. People who feel that they must go to the movies or a dance or card game every night, either have unhappy homes to get away from or no character to fall back upon. An occasional concert, theater, dinner, luncheon or dancing party keeps Jack, and Jane, too, from being a dull boy and girl. But the mad rush for these things which is so common is a sign of weak character.

All the evils of life are not confined to cities by any means, but there is a certain glamour

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*The subject of clothes is treated more fully in Chapter IV—Family Finance.

about spending money in the city, a certain attempt on everybody's part to live and dress and act like the rich. Outrageous prices are paid for services just because there is a lot of gold lace and flunkyism attached. Young men on small salaries ride in taxicabs when they might as well take a street-car or walk. They insist on after-theater suppers and often pay reckless prices for theater-seats.

Those who never deny themselves anything, who never bring themselves up with a sharp jerk, pass easily and imperceptibly into injurious self-indulgence. *Indeed thrift often means nothing more than cutting off bad habits.* Many habits, while not actually bad, are at least foolish and silly and weaken the power of self-control.

Every one knows that one of the greatest enemies to prosperity is liquor. Whatever may be said of moderate drinking, we all know there is a vast amount of intemperate drinking. The people of this country spend a billion dollars a year for liquor, or several times as much as they do for life-insurance. Most of this is utterly unnecessary and gives no real and lasting benefit. Much of it is destructive of health and character. Russia evidently thought so!

This is not a temperance lecture. I am not discussing the moral aspects of drink, but merely the money cost. There is not only the first cost of a billion dollars, but the second cost of fully as much for crime, insanity and disease. If the five-cent piece carelessly thrown on the counter for another glass of beer were only saved, how much happier the nation would be.

Candy, tobacco and gum are as wasteful on a smaller scale as liquor, and the constant use of any of them is a senseless habit.

A hundred million dollars a year go into candy, the constant eating of which only makes unnecessary work for doctors and dentists. An occasional taste of sweets does no harm, but constant munching is simply throwing money and health away. Far too often those with small wages and large families are the ones that sin most in wasting the dimes and quarters for drink, tobacco, gum and candy.

It is amazing how many weak-minded people there are in the world. And it sometimes seems as if those who take soft drinks are just as empty-headed as the hard drinkers. How many times you and I have taken a glass of soda or ginger ale when we didn't want it just because

some one offered to treat us, or have bought a round of drinks for others who did not want anything. We must always be doing something, and if nothing else turns up we frequent a soda fountain, although we know perfectly well that water will quench our thirst far better.

The amount of money wasted on merely petty extravagances is appalling. People can not go to a circus or lakeside resort or ball game without spending right and left for popcorn, candy, soda, and numerous other articles which do no one any good and for at least half the people that partake of them, result either in a spoiled appetite for dinner or indigestion. If you will stop and think of how many soda fountains there are in your own town and how many other towns there are in this country, you will realize what a vast sum is sunk in this sort of stuff. Think of the number of boys that sell soft drinks at the baseball parks, and how many parks there are in America. Can you find a reputable physician anywhere who will recommend the use of soda water or candy, except in the most limited quantities? Cut out these trivial, childish, useless expenses. Do they do you any good in the long run? Answer that question. Use the pruning knife. It won't

hurt a bit. If you are ever going to pitch your scale of living a bit lower, now is the time to begin. And why not begin with these stupid trifles? A dime will accomplish wonders, says B. C. Forbes:

A dime a day would build up a serviceable library.

A dime a day would pay for a week's vacation in summer.

A dime a day would buy a twenty-five cent gift for one hundred and forty-six poor children at Christmas.

A dime a day would pay your fare, second class, to Europe and back in three years.

A dime a day would start you on the road to building a house through a savings and loan association.

A dime a day would buy you in three years a share of Pennsylvania Railroad stock paying six per cent. a year, or a share of United States Steel preferred stock paying seven per cent. a year.

A dime a day, at five per cent. interest would bring you twenty dollars a year interest in ten years, forty dollars a year in sixteen years and sixty dollars a year in twenty-one years.

Perhaps *your* wages are small; but are you getting the most advantage out of them? Are you wasting money on liquor, tobacco, candy, gum, soda, unnecessary clothes and vain amusements? You know, do you not, that except with the very poor, the necessities and comforts of life consume a relatively small part of one's income? Fundamental expenses are relatively few. The outside incidentals are what eat up surplus earnings.

Have the strength of character of George M. Pullman, who, in speaking of his early struggles, once said:

"I had my sleeping car in mind for many years. I wanted to build the car and made up my mind that to succeed in my life's dream, it was necessary to have some money and a good deal of it. I began by eliminating a number of things to which I had grown accustomed. Cigars were among them. I had been in the habit of paying five cents apiece for my cigars. I gave them up and many other things too. The total did not amount to much, but the habit was valuable, for I learned I could do without many other things that before that time I thought were absolutely essential to my well-being."

Most young men "blow in" money on unreal and trifling wants because their companions do it. It is said we are the product of our environment, but there is no reason why we can't change a few of our friends.

"In the department of the factory where I worked," said one young man, "there was a young fellow—a congenial boy—who roomed in the same part of the city as myself. He was of the sort that 'blew' everything he made. I liked the boy, but not his profligate ways. In the environment of his company, I was perpetually being embarrassed into spending money foolishly. I knew I ought to have another environment, but hardly knew how to create it. Finally, I discovered another boy about my own age, an industrious lad who saved his money and found diversion in his books and camera. By working overtime, I got to walk home with him and we were soon acquainted. I could have a splendid time with this fellow without spending a cent."

Traveling men are often tired at night and discouraged with their strange, unhomelike surroundings. But they can, if they will, cultivate the habit of reading and study, and the friendship of good books. On the other hand,

it is easy to fall into the habit of spending every evening at cheap shows.

"In entering a strange city," said one thoughtful traveling man, "I have found that the places one frequents most are the ones he grows to like best. Coming from work fatigued and wanting diversion, I could spend an evening at the public library or some down-town amusements. If I went down-town, the next evening the strongest draw would be for the same place. If I went to the library, it would have the strongest appeal and seem the most homelike on the second evening. Therefore, it is my practise to make books and the library my chief pleasure resorts. They give one knowledge, quiet rest, and cost no money. At the other amusements, one must mingle with questionable characters, his time is squandered, he returns to his room little refreshed and has spent considerable money.

"Nothing is more stimulating to the youth who is striving than the biographies of men who have struggled and achieved. I have returned from work fatigued, exhausted, disgusted—in that state when one is just ready to give up and let the whole thing go—and found a single page of struggles and disap-

pointments in some man's biography a tonic that brought back my spirit and determination."

Of course every man is not of a studious bent. It would be a great pity if we were all bookworms. But there is no danger of that, and there are plenty of other wholesome amusements which are not expensive in the long run. If a young man figured out the yearly cost in money of moving-picture shows, he probably would find that the money would more than pay for a Y. M. C. A. or athletic club subscription, and that the healthy nature of the Y. M. C. A. work and the sociability of that institution would make the latter a far better investment, both of his money and of his time.

Bruce Barton, a well-known magazine editor, tells this story: "I attended the funeral of a 'good fellow' recently. He had always 'lived up to his income.' When the company for which he worked was reorganized ten years ago, the president said to him: 'Have you a thousand dollars?'

"A thousand dollars put into that business ten years ago would be earning a competence for his widow to-day. But the 'good fellow' didn't have it: he had never learned to save.

And now we are raising a fund to buy his daughter a piano, so that she can give music lessons.

"I came away from the funeral with another man whose salary had never been as large as the 'good fellow's.' We rode in his automobile.

" 'Do you know how I paid for this automobile?' he asked. 'Out of the dividends that came to me last year from my savings. When I was getting eighteen dollars a week, my wife took two of it every week and put it into the savings-bank, where we couldn't touch it. When I was raised to twenty-five, she raised the savings fund to five a week; and so on. I'm forty-seven years old now. I've never had a big salary, as you know; but I could retire to-morrow, if I wanted to, and have more than thirty dollars a week in dividends from the money I've saved. I tell you, I don't know anything that makes a man face the world with so much confidence as the knowledge that he has made himself independent of it.'

"There you have them side by side—the 'good fellow' and the 'wise fellow.' All of us belong in one class or the other. Which class are you in?

" 'If you want to know whether you are going

to be a success or a failure in life,' says James J. Hill, 'you can easily find out. The test is simple and infallible. Are you able to save money? If not, drop out. You will lose. You may not think it, but you will lose as sure as you live. The seed of success is not in you.' "

CHAPTER III

PERSONAL FINANCE

SOME folks have an idea that saving money consists entirely in stopping expenses. But that is merely hoarding. Of course the first step in saving is to cut out foolish expense. One must have enough common sense to do that. But it is not enough. You can never measure a man by the amount he keeps.

The great thing is to know how to spend. He knows how to get full value for his money and how to look ahead. The thrifty man knows how to spend as well as how to accumulate. He may not go to the theater often, but he gives himself and family a restful vacation. The wise man spends money just as he eats or drinks. There is no over-indulgence or dissipation. He takes what is good for him.

It is the system, the efficiency with which one's personal finances are managed that makes economy worth while and raises it from the level of miserliness. No one but a born

miser can save money unless he knows how to manage his money affairs systematically, no matter how small his income may be.

Most persons are so involved and tangled up in their personal finances that the mere suggestion of saving is ridiculous. They are lucky if they can ever figure how much money they possess, how much they owe, and how much they have on hand. They never know where they stand. This is because they do not plan ahead how to pay their bills. We all know plenty of men who cause constant annoyance by appealing to their friends for small cash loans, or presenting checks to be cashed where they are unknown; not because of any lack of resources, but from sheer carelessness and lack of forethought. Others have no regular plan for paying bills, sometimes paying by check, on other occasions in cash, or even by draft or note. Others never take the trouble to balance up their bank-books and suddenly find they have overdrawn their account.

People who would not dream of being careless in their business affairs trust to luck in their personal finances. Men who manage their business affairs well are foolish in personal matters simply because they do not carry

the same system over from one field to the other. All business concerns have budgets and programs of expense. There is no reason why individuals should be more lax. There is no reason why they should lavish their money in a hit or miss fashion any more than do the corporations for which they work. A business concern that ran its finances the way many individuals operate theirs would soon go on the rocks. If the average firm or corporation kept no financial records it would shortly be in criminal difficulties.

American business houses, as a rule, lay out their expenditures in advance under a definite system. When the fiscal year is started, a firm knows from past experience about what it ought to spend, and a definite system of expenditures is laid out. The inner organization may consist of say, half a dozen men, each one of whom has his voice in making up each budget of yearly expenditure.

John D. Archbold, of the Standard Oil Company, once said that his company never fooled themselves; that they knew by their books where every penny went, and where to stop the leaks; and that it was this careful policy that

made the Standard Oil Company the most successful business in America.

As the treasurer of a big railroad system once said: "It saves haggling. If the item is in the budget, it is spent; if not, it is hastily passed by. It is a pleasure to spend money this way, because when dedicated to a certain purpose, it really passes out of my hands and becomes the property of another. There is no strain or gripping in the spending of it."

A great expert on efficient methods of doing business has said that most individuals spend money the way a dog jumps over a fence. They do not know whether they will land in a fox trap, a bee's nest or close to a juicy bone.

This is because most of us do not plan our expenditures ahead. It is because Americans, in general, have abandoned the old thrifty idea of a personal budget, and have simply been spending their money. It is because we are lazy and indifferent, and an account-book looks "too book-keepy" for us.

The majority of us "just pay our bills" when the bills come in, or if we live on a cash basis, make purchases until the cash runs out. There is neither system nor sense in such a plan. It

is the surest incentive on earth to extravagance and waste, and the remedy, a return to the old plan of laying out a budget, is the quickest and most certain cure.

If you know what you want and have planned to buy it, you will not buy foolishly and impulsively, and you will not be led into rash purchases by smooth salesmen, thus throwing away money on what later prove to be costly blunders. Nor will you purchase bargains you don't need just because of an advertisement. The man who has a fixed standard of personal expenses knows just "where he is at," and is less likely to be extravagant because he knows when he is being extravagant.

As a simple illustration of system in personal finances a man should plan that the month's rent and food bill will be kept within his earnings for a fixed period. Or, if unmarried and independent he should work out a similar scheme for board and clothing. Then another portion of his income should take care of incidentals, still another portion be set aside for extraordinary expenses, and finally a regular fixed amount for savings. The real work of a great many clerks, accountants and bookkeepers is to analyze costs, incomes, expenses

and so forth. Why not learn to analyze your own costs as well as those of your employer's business?

Don't forget future debts and obligations in making up a budget. Keep accounts of them or they will come out of the woods like a highwayman. Perhaps you can include under savings such items as insurance premiums. Maybe you don't like to cross bridges until you come to them, but in this instance there won't be any bridges to cross at all if you figure ahead a little.

Hugh Chalmers, one of the country's leading automobile manufacturers, began saving when he earned five dollars a week. After he had become a successful salesman he figured that three hundred dollars a month would meet his actual personal and family expenses. So he looked upon that three hundred dollars as a monthly mortgage which must be cleared before he could begin to save. His best efforts were directed to clearing it off by the twelfth of each month. Can you imagine a more thrilling game?

Chalmers had to work hard. Sometimes it was not until the last two or three days of the twelfth-day period that he saw light ahead.

Just think of the incentive that such an object gave him in making his sales! That is the right way to go at this business of a personal budget. Make it a game, not a dry piece of bookkeeping.

A thrift census was taken of fifty-one men on salaries of one thousand dollars and upward. Twenty-three had never saved. Thirteen had saved for a time and quit. Of the fifteen who saved and held on, nine owned their homes and six had investments. None of those who had failed to save had ever kept personal books of income and outgo, whereas all but five of the successful savers had.

For many women and for many men for that matter, such as those engaged in professional pursuits or familiar with only a narrow aspect of business, I suggest that a great help to saving is to read a simple book on business forms, describing checks, drafts and notes; and also an elementary book on commercial law. Much assistance also in managing personal finances may often be obtained from one's banker.

For many people I do not believe a mere voluntary plan is enough. Some almost mechanical device may be necessary. There are

innumerable devices, as varied as humanity itself. In some persons the instinct for thrift is so sure that no system could be devised to prevent them from saving. But most of us can't go it alone, at least without some self-imposed rule, and many of us need the company of others or even a severe obligation. A Chicago banker who gradually became acquainted with many of his small depositors asked them how they managed to save, and every one had a scheme for doing it.

Whether any given device for saving proves successful depends not a little upon one's tastes and mental make-up. But some method surely exists which can not fail to suit *you*.

One man who had arrived at a fair compensation (for mechanical work) of twenty dollars a week had been unable for years to save a cent. A sudden illness stopped his wages and when he recovered he was so far in debt to his physician that he determined he *must* save. So he hit upon the plan of taxing all expenditures upon a sliding scale, thus:

Five per cent. tax on all moneys expended for necessities (such as shelter, food, clothing, etc.).

Ten per cent. tax on articles luxurious in character (such as silk stockings and other frills and furbelows).

Twenty-five per cent. tax on luxuries (such as matinées, concerts, books, candies, sodas, etc.).

The money was set aside each day in a separate purse, and at the end of ten months he had saved the equivalent of five weeks' salary. "System did it," he said, "but the system had the virtue of novelty, which bolstered up my flagging perseverance."

Any one who enjoys figures would be helped by the ingenious device described in the *Investors' Magazine.* It was the work of a young man, who drew a chart, or graph, showing by a dotted line the amount of money *expected to be saved* and a solid line for the amount *actually* saved. If the two lines coincided, of course, the scheme was being carried out perfectly. The farther the solid line sagged away from the dotted line the less was being saved, and the farther away was the accomplishment from the purpose. One of these charts shown was explained by its inventor in an interesting way:

"I have arranged a scheme so that I can actually see my hoard growing. My system is simple. It requires about two minutes a week, but it stimulates my saving instincts just enough so that I have acquired a fine nest-egg since I started doing it. The first thing I did was to procure some paper ruled off into squares. Horizontally the squares represented five dollars each. Perpendicularly, the squares represented weeks. Then I went to work to plot my 'curve.' The first week I saved five dollars and placed a dot opposite the first five-dollar mark and ran a line up from the zero-mark—that is, the intersection of my constants. Perhaps that isn't clear to you, but you will see that the more nearly vertical my curve runs the faster I am saving. Up to the fifty-dollar mark—that is, ten divisions of my vertical—I made a mark. That represented my temporary goal. If I had saved that amount in ten weeks my variant would have been a line running at forty-five degrees. As it was, it took me twice that long. Then I decided that I was going at too slow a rate, so I increased my saving each week, and the line shot off at a sharp angle upward. In that way I could actually see the

improvement I made. Every time the line begins to sag a little I take the hint and deduct a nickel or a dime or a quarter from my luncheon money or other expenses. I stick to it until the curve straightens out. It seems a little thing, but I never saved a cent before I started doing it."

Nearly all mechanical devices for saving are a tacit acknowledgment of the weakness of human nature. But how much better it is to acknowledge we are weak enough to need a savings device than be so weak we can not save at all!

One of the simplest methods is to save all small coins of certain denominations, pennies, nickels or dimes. Or save every coin bearing a certain date, 1913, for instance, or every new coin. If you put aside five cents a day, which is the price of one cheap cigar, a glass of beer or a package of chewing gum, with interest at only three per cent. the total at the end of twenty years will amount to nearly five hundred dollars.

Every time a man smokes a cigar less than the day before, or shaves himself and shines his own shoes, it is a good idea to put aside a dime

for the savings fund. Or put a silver dollar into the bank on pay night, when money is plentiful, the next day make it half a dollar, then a quarter, a dime, a nickel and a penny. Small as this saving is, it will carry several thousand dollars of life-insurance. A bit of oddity, even of the fantastic, often helps in this hard game of saving money.

Of course children often save by putting small coins into a toy bank. Grown people usually laugh at such contrivances, but it might not be a bad idea if our banks would introduce a device which a bank in Budapest, Hungary, has been using to great advantage for a number of years. These are slot-machine savings-banks and are arranged for the receipt of two coins, the crown, twenty cents, and the twenty-filler piece, four cents. They return a ticket for each coin deposited and these tickets bear interest from the date of their issuance. The rate paid varies with the current bank rate and ranges from three to four per cent; one hundred and ten tickets may be exchanged for a bank-book. The machine is so constructed that if counterfeit coins are deposited, the numbers of the tickets issued for them can be ascer-

tained. The first slot-machine savings-bank was placed in front of a branch of the bank in the immediate vicinity of the central railway station.

Many persons are so constituted that they need a savings scheme with regular machinery that forces them to put something by. Christmas clubs are about as convenient as any. Nearly one thousand banks use this device. The scheme is a simple one. The first week after Christmas you deposit five cents, ten cents the second week, fifteen the third, and so on until two weeks before the following Christmas the bank sends you a check for sixty-three dollars and seventy-five cents, often with interest added. Or you may join a class beginning with two cents or even one cent. Still another way is to reverse the process and deposit two dollars and fifty cents the first week and reduce it by five cents each succeeding week. One bank paid out three hundred and fifty thousand dollars in a single year in savings clubs.

Somewhat similar is the movement to get people to promise themselves to save and deposit something in the bank every week. The pledge or covenant they make with themselves is as follows:

I WILL become a "WEEKLY SAVER," and will deposit $-------- every week for at least fifty-two weeks to my credit in a savings-account at the bank.

Signed-----------------

If you live where there are no savings clubs or even no banks, do not give up the idea of saving. Join with a group of your fellow workers or with your family to put aside a certain small sum every week. With a number of small sums combined the compound interest will mount up much faster. That is real cooperation. Another method is to impose small fines for all manner of shortcomings, for all the little vices. Every member of the family that gets up late may be fined a penny, or five cents for every minute late for work.

CHAPTER IV

FAMILY FINANCE

IF A MAN or a woman has a home the spending of money assumes even greater importance than with the individual. No matter how successful the earner may be, it is too often the case that the spender gets rid of money as fast or faster than it comes in. The home, the household, the family, by whatever name we call it, is too frequently a great sieve through which hard-earned wages disappear.

The sad experience of ages proves that just as infatuation is not love, so two can not live so cheaply as one, and that five can not live so cheaply as two.

On the other hand, a successful mistress or housekeeper, be she wife, mother or sister, fights half the battle. Women, once they get the idea of saving, order, system, efficiency, into their heads, can beat the men at it in many instances. Women are probably more persistent savers than men, and it is said, I do not know

on what authority, that at the end of any given number of years a relatively greater proportion of women than men are still saving. James J. Hill was once talking to a convention of farmers:

"Remember that the farmer's wife is one-half of the family, and she is the bigger half, too. The farmer's success or failure, his going up or down in his scale of accomplishment, depends upon her.

"A helpful thrifty wife, who is conserving his capital, his health, his earning ability, not to mention the pocketbook, closing the avenues of waste, will make him succeed. He can't help succeeding, while with a wasteful, careless wife, he might as well give up.

"These are facts. Make the test—take two men, one with the right kind of a wife and one who has the wasteful careless kind, and see how real it is in the actual progress of that family."

The wage-earning member of a family is spurred to renewed effort and increased earning capacity if the home is comfortable, well ordered and economical. Housekeeping is a science, and an extremely important one. It is sometimes said, and truly enough, that if a wife can not earn as much as her husband she

should save more. Women are said to do eighty-five per cent. of the family buying. But their function is a more dignified one than such a statement seems to indicate. For let me repeat that the judicious spending of money is fully as important as the making of it, because money is made only to spend, sooner or later. And the housewife is the spender.

Not only must the housewife feel the dignity and importance of her calling but she should put her energies into it just as fully as her husband or brother or father does in regard to his business. Otherwise she fails to measure up to her position. Neither men nor women realize how serious has become this business of the mistress or housewife. Its literature grows as fast as that of medicine or law. To be a successful home manager requires study just as it does to be a successful teacher of philosophy.

Too many men in the past have considered that everything was accomplished if only their salary checks were large, and too many women have failed to realize that housekeeping required brains as well as physical drudgery. Even now the brains of American women have not been brought to bear in full force in this, her undisputed field, a field for

the display of masterly generalship. But, as just stated, there are already many excellent books on household economy to be found in any library. Then too the Department of Agriculture furnishes free any number of useful bulletins on food preparation. Why shouldn't the housewife read portions of the home magazines just as diligently as the writer of this book reads the financial publications?

One of the newspapers recently ran a symposium as to whether a poor or rich wife was the more desirable for a poor man. I am inclined to think that the advocates of the rich wife, by which they merely meant one trained in a rich family, had the better of the argument. It was pointed out that the girl who had been accustomed to money knew how to take care of it, would quickly analyze her husband's affairs and help him to get along on a small income. Whereas the poor girl, so it was said, would regard even her husband's small income as so large in comparison with the little she had been accustomed to that she would embark upon a career of extravagance.

Of course there are plenty of exceptions both ways to this generalization, but it contains a significant grain of truth. Far too many girls

know nothing of the value of money until they marry. There is not much to choose between the rich and the poor in this respect. It is not my purpose in this chapter to deal especially with young girls except to point out that to manage the finances of a family with any degree of success one must know the value of money, and if it is not learned in youth, it must be mastered later.

"A lack of knowledge of the value of money on the part of women is the most powerful enemy to domestic happiness that exists," declares Judge Arthur Lacy of the Domestic Relations Court in Detroit.

It takes just as much ability to run a household well as to run a big business enterprise. The budget is just as complicated. The great items are rent, food, wages, fuel and light, laundry, dress, incidentals, charity and refinements, amusements and possibly insurance and savings. A consideration of all these items does not properly come within the scope of this book. But it is possible to make some pointed remarks about a few of the leading ones, and about the wisdom of the budget system in general.

One young wife, whose husband earned eighteen hundred dollars a year, made a careful study of home budgets. The income had

never been sufficient to cover their expenses without worry, and she determined to see whether it could not be administered more scientifically. She kept careful account of all expenditures, and she found that the key to the whole situation lay in spending the income in definite proportions. In other words she established a home budget. Applying this system, she divided their monthly income of one hundred and fifty dollars as follows:

Rent (16 2-3 per cent.)	$25.00
Food (25 per cent.)	37.50
Operating Expense (15 per cent.)	22.50
Clothing (15 per cent.)	22.50
Insurance and Savings (10 per cent.)	15.00
Amusements and miscellaneous (18 1-3 per cent.)	27.50
	$150.00

Perhaps, without knowing it, she established the same system for her home that every successful business has found indispensable. As explained in the previous chapter, no large corporation uses a hit or miss policy of spending money.

One of the women's magazines, *The Ladies'*

World, has published an admirable little booklet containing sample budgets and also blank pages for the use of the housekeeper in keeping count of her expenses for a period of many months. According to this booklet, entitled *Where the Money Goes,* one woman who tried to keep a budget, had this to show at the end of the first three months:

Income	$400.00	
Clothing	$ 53.20	13.3 per cent.
Food	107.20	26.8 "
Improvement	23.20	5.8 "
Operating Expense	76.80	19.2 "
Savings and Insurance	37.20	9.3 "
Shelter	120.00	30.0 "
	$417.60	104.4 per cent.

Of course, she and her husband saw at a glance how out of proportion many of their expenses were. In the first place, they had exceeded their income by $17.60, for the "Insurance and Savings" was merely the premium paid on the husband's life-insurance, and no money had been put into the bank. Their rent and food had cost too much, their operating ex-

pense was far too heavy, and they had only a very small sum for improvement and recreation.

Husband and wife sat down and talked it over. They found, for instance, that a little more fish and a little less meat would make a difference; their house supplies had run over twenty-two dollars for the period, and some of these could have been dispensed with. Moreover, they were paying too large a proportion of their income for rent, and they decided to look about for another house.

It didn't take so much planning as you would think. They simply readjusted their scheme of living a little, with the result that this family is now saving twelve per cent. of its income, and the woman reports that they never knew before how comfortably a family can live on sixteen hundred dollars a year when the money problem is given real study.

It is impossible to prescribe the exact divisions which it is proper to make of a given income. The tastes of the family naturally must be considered. But you will be interested to see how the best experts in home economics look on the matter, and you can get some guidance in making the home budget by comparing your budget with theirs.

BUDGET

Yearly Income	Clothing	Food	Improvement	Insurance and Savings	Operating Expense	Rent
$1000	$100	$300	$100	$150	$150	$200
	10%	30%	10%	15%	15%	20%
$1500	$175	$375	$225	$225	$200	$300
	11⅔%	25%	15%	15%	13⅓%	20%
$2000	$225	$450	$325	$300	$300	$400
	11¼%	22½%	16¼%	15%	15%	20%
$2500	$300	$500	$500	$400	$400	$400
	12%	20%	20%	16%	16%	16%
$3000	$400	$575	$475	$550	$500	$500
	13⅓%	19⅙%	15⅝%	18⅓%	16⅔%	16⅔%
$5000	$600	$750	$800	$1400	$700	$750
	12%	15%	16%	28%	14%	15%

After rent, which is covered separately in Chapter XI, the great item to be considered is food. "Tell me what you eat and I'll tell you what you are." In these days of high prices the only way in which a housekeeper can set a good table at a low cost is by *increased activity of her brain matter.*

Remember that there is almost no article of food that has not a *substitute* that is *almost equally nutritious.* Cheese combined with macaroni, rice or potatoes is sufficiently nutritious for even a physical worker and can often take the place of meat. Cereals also should be used extensively, particularly the wheat cereals.

Search every cook book you can find for the best and most ingenious ways of cooking common foodstuffs. Buy common vegetables and dried peas, beans and lentils and always rice.

The cheapest foods are often the most nutritious and digestible, as well as palatable and appetizing, if the housekeeper is constantly alert and vigilant in her search for new methods of preparing them. "We squander money on fancy articles of low nutritive value, and we use little or no judgment in preparing what we eat with a view to obtaining all the energy there is in it," says O. H. Benson of the De-

partment of Agriculture. "The American people live largely upon a diet made up something as follows: Meat, coffee, bread, butter, eggs and supplemented daily by a liberal dose of patent medicines, while out in the back yards and orchards are millions of bushels of healthful vegetables and fruits, rotting for want of proper methods of caring for this surplus."

Waste of food is a great leakage in every man's income. Watch what leaves the table as well as what comes on to it. It was long a common saying that American housewives threw out of their kitchens enough to feed a French family. But that commonplace has a terrible amendment now, for it is said the average American family wastes enough in one week to support a needy Belgian or Pole two weeks. It is well known that the highly paid chefs waste nothing, because their ingenuity and ability use up everything. By planning meals several days ahead, not only may left-overs be used to greater advantage, and each meal planned with closer reference to the next, but marketing is effected more readily.

The marketing of food is fully as important as its choice and preparation. This does not mean haunting stores all day long, but it does

mean the making of many inquiries, estimates and calculations. Perhaps it may prove wise to go to a general market, if there is one in your city, even though it is two miles away, for the saving may more than offset the car fare and time expended.

Study the seasons and buy when provisions are cheap. If you plan your expenditures ahead you can arrange to do it. April eggs should be laid down by methods understood by housekeepers, thus saving twenty or thirty cents a dozen next winter. The same is true of other articles in their season. Nor is this the case with food alone. Coal is much cheaper in the spring than in other seasons, at least in many localities.

Buying for cash often saves many a penny. It has been said that a family can live two days on cash purchases for the same cost that will carry them one and a half days on credit. As a general rule, you can get better prices by buying for cash because you are not paying for the bad debts of those who buy on credit and fail to pay their bills. Unrestricted credit always leads to extravagance. Avoid overdue accounts. Be quick to pay bills, for then you may often get a discount. Many business con-

cerns make a large portion of their profits by taking cash discounts. In many towns and cities the prompt payment of gas bills means a ten per cent. discount. A word to the wise—.

One of the greatest evils of our time is the readiness with which retailers give credit. It is just as much a loss for the merchant as it is a temptation for the customer. It always seems easier to pay in the future than now. But there is no practise which so binds a man with unbreakable chains. Pay cash whenever you can, or if a running account is necessary to avoid great inconvenience, put aside part of your earnings every week to meet the bill when it comes in. No man is independent who is in debt, and there is no quicker way of getting there than to "charge it." Purchases which at the time seem trifling run up into appalling totals at the end of the month. It is like coasting down-hill on a sled and then painfully dragging it up again. Buying on the instalment plan is nothing but getting into debt to the least disinterested party—the merchant from whom you buy.

And don't forget that in many cases you can purchase at lower cost if you pay cash. Moreover you won't be tempted to buy so readily.

The money looks big when you take it out of your pocket, but small when the clerk says: "You can pay at the end of the month." It may take backbone and stamina to avoid the follies of unnecessary expenditure, but stamina and backbone are themselves qualities so well worth having that they are worth even more than the money itself.

Often it is possible to effect a saving by purchasing direct from farmers either by means of express or parcels post. This method of reducing the cost of living has not made much progress as yet, but is sure to be developed in the next few years. Watch its growth in your own community. Ask your neighbors what they know about it. Perhaps you will learn that there is some cooperative society in your own town by means of which you can save many dollars. Don't be afraid to ask questions.

Often the largest savings are made by buying in large quantities. Some incomes are too small for that, but a little thought on the part of even the poorest will arrange matters so that the quantities purchased will be at least normal. Perhaps the greatest item in the high cost of living to the very poor is their practise of buying in small quantities. That is a fact within

the experience of every one of us. Have you never seen a woman with a shawl around her head buying five or ten cents' worth of butter or meat, two quarts of potatoes and a pailful of coal?

A thrifty housewife in a well-managed home has an allowance and should keep within it. She will keep within her yearly allowance, but the monthly or weekly budget should be elastic. Here is where she must use judgment and common sense. If she studies the markets she may find it a much more thrifty plan to order fifty dollars' worth of winter staples when they are cheapest.

Your local merchant may perhaps do as well by you in the matter of large quantities as a mail-order house if you only broach the subject. Most of his customers are so in the habit of buying in small quantities that he rarely asks if you want a large quantity. But perhaps he, too, can make a profit on a large consignment and still sell at low prices. Ask him.

I think in general it is well to be frank with one's local merchant. They are more than glad to assist customers in buying the most durable, genuine and substantial goods. Of course if a buyer insists upon a poor article, the merchant's

business is to sell it. But when the customer frankly asks for information he is pretty certain to get a truthful reply.

Speaking of buying in quantities, don't forget that in cities such as Washington, Buffalo and Schenectady, where street-car tickets cost five cents apiece or six for a quarter, the frugal person always invests the quarter.

One of the greatest troubles a housewife faces is the servant problem, and it is a problem she must work out for herself according to her physical strength, ability, social standing and temperament. Some women can take a raw country girl and by patient instruction, tact and thoughtful kindness make her into a fairly efficient servant who will stay with the family willingly for years. Such women have no servant problem. Other housewives prefer to hire servants by the hour occasionally and use the rest of their wage allowances for trying some of the many modern labor-saving devices such as the fireless cooker, the vacuum cleaner and the many electrical implements. Each method has its advantage and it is for the individual housewife to decide which best suits her purse, time and energy. Overwork or overeconomy is never thrift.

But whether the mistress has a maid or not she should, as far as she can, standardize her work in the home as her husband does in his office. The household equipment, the tools of her business, should be plentiful and kept in good order. Furniture in the kitchen and elsewhere should be arranged to allow for the greatest amount of cleanliness with the least amount of labor. Bills should be looked over every month systematically to avoid overpayments, and, if possible, the housewife should devise some common-sense scheme of keeping records so that she may profit by her experience and learn each year some new way of cutting off a corner.

Dress might just as well have been mentioned in the chapter on Personal Finance as in this one. But the housewife usually buys all the clothes of the family except those of the menfolk, and often she buys part of their wardrobes. Then, too, it is her duty to impress upon children that they do not need new clothes just because their companions have them. It is the mother's duty to teach her daughter to save something; if the daughter works, to put something by for future years, rather than waste it all on vain show.

My deep personal conviction is that overdress is one of the most serious evils in this country to-day. Statistics show how large a per cent. of the young women who go wrong take that dismal path because of a desire for silly finery. I know a woman who works in a library who spends every cent she earns on clothes. She is no longer young. She makes no provision for her old age, and appears to care not a whit. Yet her good clothes get her nowhere. They do not make friends. They do not raise her in the estimation of her employers.

A famous but eccentric college professor, noted for his startling half truths, once astounded his class by saying he believed in extravagance of dress. He explained his novel views in this simple fashion: "The lowly and humble working girl who buys a feather worth a week's salary or a gaudy hat, feels elevated and raised among the high and mighty by her showy clothes." Now, of course, any one who has given the subject any real thought or observation knows that the best, most useful and very often the richest people dress quietly and simply. I have often noticed a five-dollars-a-week mailing clerk or a seven-dollars-a-week apprentice stenographer in a great mercantile

establishment dressed far beyond her means in gaudy finery, whereas the young woman who held the position of confidential secretary to the president at forty dollars a week was dressed in the quietest possible manner.

But this does not answer the argument of the learned professor. The working girl who spends her entire wages on elaborate clothes does not accomplish anything thereby, because people of influence, leaders in large affairs, employers, members of the class that might help her, are never impressed by extravagant dress. It defeats itself because those whose favor a young person must win are never stupid enough to be fooled by any form of extravagance. They are impressed, of course, by neatness, cleanliness, and by clothes that are suitable and appropriate. Indeed overdressing among salesmen is so common that I have known of numerous instances where a quietly dressed representative made far more impression upon the prospective customer than the vulgarly over-dressed drummer.

"The débutante must have her Paquin gown," says a committee of the Young Women's Christian Association, "for which she, to be sure, is quite able to pay. The daughter of the

business or professional man of moderate income feels, in her turn, that her social success depends upon her ability to obtain the best American duplicate. The salaried woman adopts a mode of dressing relatively beyond her means. And as for the girl in the shop, she would be more than human could she withstand the force of the ever present temptation to keep the pace. Who can describe the unhappiness, the actual distress of mind, the disaster, which too often result from the effort to follow standards set by the thoughtless self-gratification of would-be leaders? In democratic America, where there are no insurmountable class barriers, no woman is protected from the impact of these extravagant ideas. The youngest and the poorest wage-earner is the most helpless."

If you are a clerk, dress as a clerk, if you are a housewife, dress as a housewife. Do not be a factory girl dressed like an opera star or a stenographer dressed like a lady of leisure. *Be proud* of your occupation and the dress that befits it.

Dress should be *appropriate* to the season, the locality, the company, the hour, the occasion and above all the station in life.

Before you buy new clothes be sure that what you have can not be made to do. It is wasteful to discard clothing before it is worn out, particularly when you do it for the foolish reason that it is not quite in the very latest style.

Have your clothes as simple as possible. They will wear better and will not become shabby so soon. Remember that dress has a powerful effect upon the wearer. If you are shabby on the outside you may soon come to feel shabby on the inside. If you are efficient, successful and self-respecting, look the part, not by spending much money, but by taking great thought and pains.

Simple clothing does not easily get out of order. It is easy to keep clean and bespeaks the gentleman and gentlewoman. To be beautiful, a dress does not have to be elaborate, in fact it is often more beautiful in its simplicity.

It is important that the really shrewd housewife will lay aside all she can for incidentals. In this day of complicated living often the big obstacle to systematic saving is the "incidentals." They may seem small and of little account for weeks together but there is sure to come a day when Johnny has to have his tonsils removed, when the dentist demands many

sittings, and the oculist sends a bill twice as large as you expected; when something goes wrong with the gas stove and the new maid smashes a tray full of dishes. Then is the time for the thrifty housewife to appear proudly before her worried husband with the money she has been saving from many weeks of unused incidentals to meet just this emergency.

CHAPTER V

SAVING ON SMALL WAGES

IN the last two chapters there was set forth the absolute necessity of system and plan in any effort to save money. But I know these chapters will leave many people unconvinced.

"It is all very well to talk about saving," I hear them say, "but what is the use of going into all these details when one hasn't enough to save on. Why, if I could put aside five dollars or ten dollars a week there might be some point in it, but I would almost starve if I did that. I can't save enough to amount to anything."

In this reasoning lies the tragedy of many lives. I speak from knowledge—real, live and intimate. It is the tragedy of the very, very poor, and no less of those whose incomes are far from small. It is the dreadful fallacy upon which even men with incomes as high as ten thousand dollars a year have gone astray and their lives become embittered.

Save a little, no matter how little, begin as

young as possible and stick to it. That is the lesson of bitter experience, the secret of being able to acquire a competence, often the secret of business success. Here is one instance which I know of in a most intimate way.

A young man of twenty-four left his little country college after four happy and fruitful years, for a position in a great city at fifteen dollars a week. It was a good position in that it was certain, with hard work, to lead to much higher achievements, and it did. The salary seemed large to the young man, but his health had never been especially good and several illnesses soon melted his small savings away. His work, although full of interest, was with its irregular hours, a constant drain upon his vitality. At first he lived economically at cheap restaurants and lodging houses, but this soon became intolerable and he raised his scale of living. There seemed no margin for saving and after a few months of struggle he gave it up.

To-day that man is nearing forty and is more successful than he had ever really expected to be. His income is not a great one, but it is a fair round sum. But he saves hardly a dollar. His habit of living up to his income has stuck by him. A wife and three children, frequent

illness and the necessity of having specialists, travel, summer vacations at the seashore and other similar expenditures always wipe out a steadily growing income. A moderate amount of life-insurance protects his family to some extent, but it is not anything like enough. I do not doubt that his professional effectiveness is reduced by worry about the future. What will become of his family if he should be taken away?

The fatal error which this man made was not to save a little of his first salary of fifteen dollars a week and keep it up. Knowing him as I do, I do not believe he could have saved two dollars a week of that fifteen without actual suffering. But he could have saved one dollar without missing it. It seemed such a small sum at the time, or perhaps he never thought of it at all. If the one-dollar habit had been formed fifteen years ago that man would be nearing the one-thousand-dollar mark on the basis of one dollar a week alone, and would by this time be saving far more than that from mere force of habit. To-day it is too late to begin.

Saving never slips on like an old coat. It is never induced by theory or by moralizing. It is a matter of practise, of habit. Persistency and

regularity do the trick. The value of saving pennies is largely to get the habit. We all know the older we are the harder it is to acquire any habit. The man of forty or fifty is too settled in his habits to learn. He can not give up what he thinks are necessary luxuries, but which merely seem necessary to him because he is no longer young enough to be elastic in his tastes and wants.

For that matter children should be taught to earn and spend money efficiently when they are young, and their minds receptive and plastic. Too many children are never taught to earn money in their younger days, and then are foolishly expected to have the money-making faculty developed and ready for use when they reach maturity. The time to teach any subject is at the earliest possible age that a beginning can be made. It is a grave mistake to assume that children will spend the most impressionable part of their lives in careless disregard of money matters and then grow up frugal and provident.

So I say start young, save a little, but stick to it. And let me emphasize the advantage, paradox as it may seem, of saving a little rather than much. Figures show that persons who

deposit between five dollars and twenty-five dollars a month are more persistent savers than those who try to set aside a larger sum. Some people save half their income, but this involves a degree of economy that few would care to imitate. More save twenty-five per cent. A great many save ten per cent., which involves comparatively little sacrifice, and builds up a surprisingly large sum in a few years with the aid of compound interest.

The great trouble is that people want to make money with a leap and a bound. They are not satisfied to proceed slowly, quietly and surely. The get-rich-quick idea pervades the saving end of money making no less than the investment end. Such persons are like some religious converts who try to acquire all the goodness in the universe at once. It is too good to last.

Excess in anything is dangerous, but especially delusive in money matters. People try to save too fast and too much at a time. They put more into the bank than can be kept there comfortably. Then comes some sudden unexpected expense and the savings fund must be drawn upon. If three-quarters of the sum had been put aside for emergencies and only one-quarter

put into permanent savings it might not have been necessary to draw it down.

Discouragement at the whole idea of saving results. We all act more or less upon the basis of reaction, one excess being followed by its opposite. So the excessive saver having made a failure of it breaks into worse extravagance than before. Spasmodic saving is just like impulsive spending. You don't get any worth out of it. Extravagance in saving works out as badly as in spending. Another mistake of the same kind is that the first instinct of those who find they are not saving is to reduce their larger and necessary expenses, usually an impractical course and one that only results in going back to the old extravagant ways. Save the dimes and nickels, cut a few little corners, and you won't relapse from grace nearly so soon.

The whole point is to save a sum small enough in proportion to the total income to be maintained under practically all circumstances without a lapse. Of course, if it is large enough to amount to something, so much the better. Anything over a dollar a week will grow pretty fast.

And there is only one sure way of keeping

even a dollar. Do it now. Do it first. Don't wait for a rich relative to die and leave you a fortune. Don't say you will save after you have "caught up" in expenses, for saving week by week is the best way in the world to catch up. You will never earn enough money to spend all you want to, before you begin to save anything.

He who postpones the beginning of saving until after vacation time or after one more week of theater going is pretty sure never to begin. We often hear a fellow say what he would do if only he were rich. His inclination to spend money is the very thing that is holding him back from being rich. Never set out to save what is left after you have bought everything you want, but save before you spend. To a young man on a salary a banker gave this pointed advice:

"Do not delude yourself with the belief that if your salary were raised you could save money, if you can not save now. Your wants will always increase faster than your salary. Increase your salary yourself by curbing your wants and saving as much of your income as you can, putting it to work for you on a savings-account. Make an acid test of your manhood.

Prove to yourself whether you have stamina to resist the urge to spend all the change in your pocket, or whether you are a slave of money and will always have to labor for it."

You have to regard the small sum deposited each week as a responsibility, a necessity. It should be just as much an obligation on your part as paying your bills. It is the only way you will ever get out of the treadmill. It is the only way to make any progress.

Of course I know enough to realize that in many, many cases it is no disgrace to have failed to get heads above water. Thousands of mortals have been so circumstanced that they could not set by one dollar for future requirements; their whole energy was taxed to make ends meet week by week. A rich man naturally is able to save a large proportion of his income, if he really wants to. A family man with an income of a few hundred dollars a year obviously can put aside only a tiny percentage of his meager wages, unless he wants his wife and children to live in dreadful poverty. But I know, and you know, that in ten times as many instances dollars have been squandered that could have been saved, even by the very poor.

A banker once gave a lecture on Thrift and

some one rose in the audience and said: "I know a man who earns ten dollars and fifty cents a week and has a wife and five children. How can he save money?" The lecturer admitted that in such a case there did not seem to be very much margin for saving, but he had hardly finished speaking when a workman arose and said he knew a man who earned only ten dollars and fifty cents a week, had brought up five children and had spent one dollar and fifty cents a week for liquor. Now there are plenty of people who don't believe it is possible to support seven people on ten dollars and fifty cents a week, even without the rum. There are probably millions of workers living so close to the dead line of existence that the idea of saving is a bitter sarcasm. But there are millions of other wage earners who are just as extravagant in proportion to their incomes as the most extravagant rich.

There are millions of wage earners in this country who would get along if their wages were cut one dollar a month, and probably millions who could get along if the cut amounted to a dollar a week. Why can't *they* save that money, instead of their employer? And if the dollar is foolishly spent it is likely to be saved

by the merchant or manufacturer who receives it. How much better for the workman to save it!

In other words, don't count yourself among those whose income is too small to save anything until you are absolutely certain you have cut out extravagance. The problem is being solved by thousands every day. You can solve it, too. But the solution is not easy. It will require manhood and a strong vigorous character to gain the victory.

To every small salaried man or wage earner there comes a fighting chance; not one to be waited for during long years, or which involves tireless struggles against competition, but every week, every day, and which every day may show its victory. It may be a small and homely chance, but it calls for a fight as hard as for greater things; a fight which being won leaves a man bigger and stronger and better fitted for larger chances.

Free your mind from the idea that any law, any political party or anything but your own ability and will can make you prosperous. Your success in life depends upon yourself. Chance plays a part, yes, but it is a small part; and, besides, you can't control chance. Barring ex-

ceptional adverse circumstances, the whole matter is up to you. If you really want to save you can probably do it. If a penny a day is all you can afford, it is far better to save it than nothing at all. Remember that many of America's greatest fortunes were built on tiny beginnings. At least there is no excuse for not *trying* to save. What you try to do you may not always succeed at, but what you don't try to accomplish, you never will.

There are incomes that with the most rigid economy and careful management, are too small to admit of any margin over bare necessities. The ordinary teachings of thrift do not apply in these cases. Better wages must be secured, and better wages will be the outcome of greater service rendered. This is not the place to go into details as to the educational opportunities that lie at the hand of almost any ambitious young man or woman, no matter how dire their poverty. I want only to point out that through education and training lies a sure road to increased earning capacity.

Take perhaps the most pitiful case of all, the young girl working for a miserable wage of from four to seven dollars a week. Even for her there is a great national organiza on, the

Young Women's Christian Association, not only opposing extravagance in every form, but teaching young women how to live and how to increase their usefulness and working capacity.

Many a girl has her fair prospects for life sacrificed at the very outset. The short-sighted parent who may covet the petty wage of three dollars a week of fifteen-year-old Mary will usually be persuaded to listen to sober reason. Mary herself may be made to see that it pays in more ways than one to be prepared before entering the business world; that she may be the mistress of her own destiny and may select the work that she will do, instead of plunging blindfold into the first occupation that presents itself; and that even a few months of specific training may lift her from the ranks of the unskilled. When her work assumes the dignity of a chosen calling for which she is prepared, instead of a mere job, the chances are that the expectation of speedy marriage will not destroy her business value. Her self-respect and ambition will furnish the mainspring for success. The habit of achieving, once formed, will unfailingly follow her from business into home life.

We all know how men arise from the lowest

to the highest positions. From newsboy to corporation president is a common every-day story that hardly excites any comment in the papers. A man may be down but he is not out until every method of self-improvement has been exhausted.

Abject poverty is depressing, benumbing, but it is not so bad as the neediness of those of larger means who can not live within their incomes. If a man or woman literally can not earn enough to satisfy the bare wants of life there is some excuse for him. Such a person is more respected than the spendthrift whose money is gone and who can no longer pay his debts. Terror and shame are the worst evils of poverty and they may plague him who has an income of ten thousand dollars a year as often, relatively speaking, as the very poor. A crust of bread and liberty are better than banquets with creditors waiting outside.

There is hardly a single man, woman or child in America who can not save some money this year, if he or she will set out determinedly to do it.

"Ah," you still object. "How can you say that? You do not know *my* circumstances."

No, I do not. But if circumstances dictate

your life, this book is not for you. You won't succeed anyway.

"Circumstances!" exclaimed Napoleon. "I *make* circumstances."

CHAPTER VI

SAVING WITH A PURPOSE

NO man can save without a purpose unless he is willing to narrow his life and dwarf his soul. What was your first attempt at saving money? Did not a doting uncle or aunt give you a toy bank with a few pennies. A few hours later the desire to shake the pennies out proved irresistible. What is purpose to a child of five compared with the exquisite pleasure of rattling something? Shall we go through life like little children with no goal ahead?

Some of us are so constituted that only selfish motives can spur us on. The "what-is-there-in-it-for-me?" spirit alone animates some. More of us, praise be, can do better when prompted by unselfish considerations. How many men never gave one thought to the proverbial rainy day until other lives than their own became dependent upon their exertions? How often do those seeking work say—quite truly—that they would not care so much if they had only them-

selves to provide for, "but there are my wife and kiddies."

It is the purpose which makes saving noble. To take a needed vacation, to get an education, to marry, to provide for one's family, to provide against a dependent old age—these are what make thrift a prime element in the building of character.

With a worthy object in view what a sense of security, what a fresh measure of self-respect, of sturdy manly independence springs from an ample "nest-egg"! The man who has toiled and saved a few hundred or a few thousand dollars can be a better American than the one who has not enough stored up to buy three meals for himself and his family.

Even small savings minister to the sense of independence. Peace of mind is worth more than any amount of self-indulgence. It is a fine thing to be able to hold one's head up, to have a feeling of responsibility and proprietorship. A small boy stepped upon a weighing machine. He lacked the necessary penny and after standing on the scales for a moment or two, his face took on a look of small consequence, and he muttered to himself: "I don't

weigh anything." And he didn't. He had no money; hence, he had no weight.

What did Mr. Micawber say to David Copperfield on a famous occasion? "Annual income twenty pounds; annual expenditure, nineteen pounds, nineteen shillings, six pence; result, happiness. Annual income, twenty pounds; annual expenditure, twenty pounds, no shillings, six pence—result, misery."

The beginning of a savings-bank account is often a crisis in a man's moral destiny, a revolution destined to make over his whole life. Saving may be the symbol and instrument of your moral as well as financial independence. It takes a certain amount of discipline to stick by any plan of savings. If you stick, it will deepen until fixed into habit, and then into second nature. Do it for the sake of your will power. The moral value of keeping one's promises to one's self is greater than all the riches in the world.

A clerk worked six years and failed to get ahead. One day his employer gave him a calling down and he was so mortified that he wanted to resign, but couldn't because he was in debt. So he gave up his boarding house,

lived in a tent (it was summer-time) did his own cooking and saved one hundred dollars. With that he built a tiny cottage on land of little value in the country and rented it to a young couple who took him to board in return for rent. Two years later he sold the cottage at a considerable profit, bought a house of his own, married and never again fell behind. "Where there's a will there's a way."

The worst thing about failure to save and extravagance is that money wasted is more than squandered. It usually means debt and often means self-indulgence, weakening of character and untold evils that follow moral degeneration. Debt is like a millstone hanging about one's neck. George MacDonald, the English novelist, has said: "No man ever sank under the burden of the day. It is when to-morrow's burden is added to that of to-day that the burden is more than a man can bear."

There are debts incurred for worthy objects. A business may be increased by borrowing money, or a home purchased by mortgaging it. It is often desirable to borrow for investment purposes. The dividends on the investment pay for interest on your loan. Besides, going

into debt for any permanent object such as a home acts as an incentive to saving. It compels one to save.

But borrowing for ordinary household expenses, for furniture, for clothes, for amusements, is no incentive to economy. Quite the contrary. What is the use of saving money to pay for pleasures almost forgotten, for food that is consumed and clothes which have been worn out. Two men are slaves: he who skimps and toils for no object but to gratify a taste for money itself, and he who plunges into debt for no good object, who borrows from Peter to pay Paul. Both are far too numerous, and who can say which is the more contemptible? But to those who have a real purpose the eloquent advice of a great English essayist is full of meaning:

"My son, if poor, see wine in the running spring; let thy mouth water at last week's roll; think a threadbare coat the only wear; acknowledge a white-washed garret the fittest housing place for a gentleman; do this and flee debt. So shall thy heart be at peace and the sheriff be confounded."

One of the chief aims for a young man or woman is a college education, or some kind of

special business or professional training. Do we need testimony to prove that education is worth almost any privation?

The School of Journalism of the University of Missouri has prepared a series of advertisements for the banks of that state in which the cause of education and the encouragement of the habit of saving are admirably united.

"If you will open an account with us when your son enters high school," says one of the advertisements, "and let him help you each week, by the time he completes his high-school course there will be sufficient in the fund to take him through college."

Of course, the purpose is to have parents save money with the education of their children as an object and then use those savings by sending the young people to the Missouri institution. But the idea is a good one for parents everywhere.

"Three hundred dollars a year will give your son or daughter a university education.

"This is about the average yearly expense of each of the three thousand five hundred students at the University of Missouri.

"Only ten dollars a month deposited in the bank at compound interest for eighty months

will enable your son to achieve his heart's desire for a college education. He can earn enough in vacations to finish out the fund."

√There are few parents who can not afford to put one dollar in the bank at the birth of every boy and girl. The baby is worth at least that much. By making it two dollars on the first birthday and a dollar more at each succeeding birthday a sum of three hundred and six dollars and sixteen cents is reached at the age of twenty. Thus owing to the great length of childhood and the silent effectiveness of compound interest, a good round sum to start a college education or a little independent business is reached by the time the boy is ready to go out into the world.

Children are expensive. It costs so much to bring them into the world, to feed, clothe and educate them, that many parents find it almost impossible to save. To buy shoes for four or five children is enough in itself to take a big part of the week's wages. But if you will teach your children to save early in life they will soon have habits which make their future success a certainty, surely a noble object for any parent to have in view.

"A man who has children can leave them no

better legacy," says E. F. Mack, vice-president of the Central Trust Company of Chicago, "than the savings habit, formed through years of actual practise, for such a habit, coupled with honesty, industry and courtesy, will insure the business success of any child later in life."

Boys and girls themselves take great delight in saving money when once they are shown its usefulness and some good end in view. The idea of buying a bicycle or other possession of real value will appeal to them enough to sacrifice candies and knick-knacks. The best plan is to give a child a small but regular weekly allowance as soon as he or she reaches the age of ten or twelve, and encourage the placing of part of the allowance in a savings-bank. As soon as the youth becomes interested in the idea of a college or business education he can be encouraged to place the entire allowance in the bank for the great object ahead.

One of the best tests of the worth of a man is his power to be prepared for emergencies. "Be prepared" is the motto of the Boy Scouts of America. When sickness, accident or trouble comes, your best friend is the little leather book which shows there is a bank-account somewhere.

In times of illness nothing aids quick recovery more than absolute freedom from worry. And worry is caused almost always because no provision has been made for the "rainy day." The man who saves does not experience this worry—he knows he can meet the bills.

We expect our friends to help us when we are in trouble, and unexpected affliction often brings unexpected assistance, but it also shows up those who are not our true friends. How much better to be able to provide for one's own emergencies! It has been said that money is only stored up labor. If you have stored up some of this treasure it will work for you when you are not able to do a stroke of work yourself.

Think of the men who die in harness because they can't finance a real vacation. I believe there are any number of men earning good salaries, but who could not afford a long rest because they have never provided for such a contingency.

Sometimes the care of one's old parents has proved a powerful motive for saving. A bookkeeper twenty years old supported an aged father and mother. Because of the father's ill

health it was necessary to move to a suburb. On the moving day the young man lost his job, but did not tell his parents. He had saved one hundred and fifty dollars and went to the city every day as usual for a month, hunting a new position. Finally he was able to get work with an automobile agency at twenty dollars a month. He knew nothing about automobiles but spent every spare moment for a year studying mechanics and is now assistant to the local manager at a good salary.

There are many crises in life, but many of the greatest are connected with love, marriage and the duties they bring. The young man who expects to be married can save far better before than after that event. Thousands of hard places in married life are smoothed away if there is a nest-egg laid by. The unexpected expenses, not foreseen in any carefully made plan, are far more easily met if there is something besides the weekly salary to meet them with. Thrift before marriage makes for happiness after the ceremony. There ought to be and actually is no stronger incentive for economy on the part of a young man than the prospect of marriage. What the right sort of girl is able

to accomplish is told in a true story that appeared several years ago in the *American Magazine*:

"It was all due to the girl. Before I knew her the idea that I could save anything out of my small salary seemed preposterous. I was not extravagant, but I liked to gratify my desires. Self-denial I had not tried to practise, but I have discovered it is absolutely essential—the heart, in fact, of saving.

"After we had come to a tacit recognition of the fact that I was 'her beau' the girl one evening said:

"'How much do you pay weekly for your room?'"

"'Four dollars,' I answered. 'It is a good-sized, comfortable one.'"

"'Don't you think you can get a nice hall room and be comfortable enough for three dollars? You go and do it and give me the other dollar.'

"'Anything else you wish me to do?'

"'Yes,' she answered. 'You call on me once a week. You live only a mile away, but I suppose you ride. Walk, and give me the ten cents car fare. You'll find the walk short if you

think of me. Then every night you come here you smoke two cigars. What price ones?'

"I answered, 'Ten cents.'

"'I'm not going to ask you to smoke poor cigars,' she said, 'but instead of two, smoke one. By smoking slowly and not all at once, one will last you just as long as two and you can give me the ten cents difference. Then you ride both ways to business, don't you? Well, I won't ask you to walk home when you are tired, but rise a little earlier and walk down. It will do you good and you can give me the thirty cents a week that you'll save. What do you spend for your luncheon?'

"'Only twenty-five cents.'

"'Well, cut out the piece of pie or something you really don't require, reduce the cost to twenty cents and give me the thirty cents weekly difference. It's a mistake to eat hearty midday meals—makes one sleepy and dull. Then you go to the movies six times a week, you told me. Go three and give me the fifteen cents saved.'

"Well, I obeyed her and found it not at all difficult. I started the first week in January, 1911. The first week in January, 1912, she

handed me one hundred one dollars and forty cents.

"'That's what you've saved,' she said. 'I didn't take the money for myself, but to show you you could save if you tried. Here's a statement:

Car fares saved visiting me	$ 5.20
Car fares saved walking to business	15.60
Saved on cigars	5.20
Saved on movies	7.80
Saved on luncheons	15.60
Saved on room rent	52.00
	$101.40

"I married the girl, and it's needless to say we live fairly well and have a constantly increasing balance in bank."

After a man is married he owes a duty to wife and children to protect them if he is suddenly called away. It is a pretty serious thought that the future of an entire family depends solely upon the life of one of its members. It is far better for wife and children to go without certain luxuries and pleasures in

the present than without the barest necessities of life in the future.

Providing for old age, whether for one's self or one's family, is a meritorious object. Whether rightly or wrongly the world never respects a dependent old man. Often unjustly it suspects him of lack of ability. To avoid want, anxiety and humiliation in old age is the duty of every one. I am convinced that people grow more and more careless in regard to this important provision. It is a dangerous tendency, but to some extent a reaction from too thoughtful provision. Many young people are disgusted at the perhaps unconscious hypocrisy of those who, under the cloak of providing for old age, accumulate vast sums far beyond the reasonable wants of humanity. Oh, for a happy medium!

Live a well-balanced and rounded life. Don't live wholly in the present or in the future. Thrift represents the proper relation not only between income and outgo, but between the present and the future.

CHAPTER VII

THE ROAD TO BUSINESS SUCCESS

DOWN in the bottom of our hearts we all know that success and happiness in life depend upon ourselves. No man is sure of having anything except what he himself earns, saves and invests—unless he is able and willing to live like a parasite upon others. As for luck, well, most grown men are really ashamed to talk much about luck. It is like loafing around for months living on one's relatives in the hope of finding a one thousand dollar bill. Henry Ford, the automobile manufacturer, once told his salesmen that luck means:

"Rising at 6:00 o'clock in the morning.

"Living on a dollar a day if you can earn two.

"Minding your own business and not meddling with other people's.

"Luck means appointments you never failed to keep—the trains you never failed to catch.

"Luck means to trust in God and your own resources."

We hear a great deal nowadays about co-operation, old-age pensions, old-age insurance, workman's compensation, minimum wage laws, and all manner of ways and means for men to help one another. Some of these are good, some may prove very bad. Unquestionably we are learning to help one another more and more. Common sense demands it. No man can live selfishly to himself. But we can't help one another either as individuals or as nations until each one of us learns to order his own life. You can best help your neighbor by paying your own debts and providing for your own future. Don't sit by and wait for the millennium. It is the inside force, not the outside force, that makes for success.

"What others have done I can do."

This is the motto which every young man and woman should cling to. It is worth sticking in one's memory and keeping it there. Success in life might seem beyond attainment, so many are the obstacles, if others no better endowed than we had not won the prize.

The proof of all I have written thus far is not my say-so, but the irrefutable testimony of life itself. It is not even what Henry Ford says, it is the life he has lived. How many

successful business men have been spendthrifts? An absurd question, you say, but does it not bring its own conclusive answer?

Put the other way, did you ever hear of a successful business man who did not get his start in life with what he had saved or what some one had loaned him on the strength of his prudent character? Even in the case of those who inherited great wealth, how many have been able to keep it who were not prudent? The large proportion of self-made men among the successful ones in any community is a matter of common knowledge. Is it not so in your own town or city?

Marshall Field, the great Chicago merchant, began his business career on two dollars and fifty cents a week, and he saved. To tell the story of all the great merchant princes, railroad presidents, bankers and manufacturers who obtained their start by living within their means would be like repeating page by page a thick volume known as *Who's Who in Finance*, or the *Directory of Directors* of every large city in the country.

Trace every fortune to its source and you will find it began with economy, thrift of time as well as money. Even those which to-day

seem to be permanently hereditary. Commodore Cornelius Vanderbilt, founder of the great house, began to save early. When working as a steamboat captain he managed to save five thousand dollars. His wife, who was equally frugal and economical, saved thirteen thousand dollars by keeping a hotel. With this first eighteen thousand dollars Vanderbilt bought a controlling interest in a steamship. The result was that within a few years he owned other ships, and in time railroads and various transportation lines.

Three of our most famous multi-millionaires have written the stories of their early lives, and these books are to be had in any public library. The early struggles of these men—John D. Rockefeller, Andrew Carnegie and James J. Hill—make intensely interesting reading to the ambitious young man, far more thrilling than the majority of novels. Of course, you don't want to make as much money as any of these men, and you probably never will. But if you want inspiration, read what they have done and how they began.

Another financier of enormous fortune, Daniel G. Reid, who founded several of the largest manufacturing combinations, began as a mes-

senger in a bank. Then he became the janitor, and when his salary amounted to one thousand dollars a year he married and bought a house on mortgage. He paid off this debt in three years and then began to buy stock in the bank for which he worked. Thus another vast fortune had its modest beginning.

There is a danger, I think, in too strongly emphasizing the great conspicuous fortunes. Few young men will ever attain them. A great many young men, however, will acquire modest fortunes, inconspicuous competences, and by much the same methods. A boy earned a few pennies by holding horses and saved enough in time to buy a rig. Such was the beginning of many a successful if not spectacular business career in former years. I doubt whether much money is to be made in holding horses nowadays, but how about the garage owners and even the automobile manufacturers? Did not many of them begin as the humblest of mechanics? Indeed most of the great, successful automobile princes of to-day, if I may coin such an expression, men like Ford and Willys, did get their starts in the humblest of mechanical capacities.

And have you ever noticed that the man of

means keeps a sharp lookout on his daily personal expenses—a closer watch than does the man of moderate means? This gives the owner of money a glimpse each day into the very scheme that made him successful. It keeps up the habit.

Not only do the careers of successful men prove that the savings habit gave them their start, but every such man, every employer in fact, insists upon the same quality in the young men whom he trusts with responsibility. Successful men who began at the bottom and have reached the top like nothing so much in a young man as economy.

"When a young man asks me for a position my first question is whether he has an account in a savings-bank," said the late Jacob Straus, who was the leading citizen of Ligonier, Indiana, when he died a few years ago.

Business men have a firm conviction that those who work for them can not manage the firm's affairs if they can not manage their own affairs. This conversation between an executive and a subordinate asking for more pay is recorded in *The Saturday Evening Post*:

"Own your home?"

"No."

"Any investments?"

"Never been able to make any—salary too small."

"If you can't manage such things for yourself, how can you for the house?"

Instinctively the employer has confidence in an economical clerk, and is suspicious of one who lives beyond his means. When a bank clerk begins to splurge the president begins to watch him. Nearly every bank defalcation starts with extravagance upon the part of the ultimate defaulter.

One western concern asks every applicant for a position how much he has saved, and if he is over thirty and has accumulated nothing his chances are pretty slim. Even more common is it for a firm to want to know what an employee does with his earnings when he is a candidate for a higher position. And why is this? It is because the successful business man of today is not a gambler. He is taking no chances. The only way the business man can decide how his employee will handle the business—and business means money—is to judge by the manner in which the employee has handled his own money in the past.

Many concerns go further than merely to

employ and advance the thrifty workman. They strive to make him thrifty even if he is of his own accord a failure in that direction. In Kenosha, Wisconsin, the manufacturers pay half the wages in cash, and half in certificates of deposit in local savings-banks. These certificates pass like cash among the merchants, but of course if an employee leaves them in the savings-bank they draw interest.

Just before Christmas every one of the seven hundred men whose business it is to assist in the actual making of flour at one of the large mills in Minneapolis receives in his pay check a gift of twenty-five dollars. It is a part of the Minneapolis company's profit-sharing scheme. The only "string" tied to the gift is that the employees must open savings-accounts in some bank. In this way the company is giving more than so many dollars. It is instilling the priceless quality of thrift.

Perhaps, young man, you want to go into business for yourself. It takes money to do that, and the chances are that nobody will hand it out to you on a silver platter. If you can finance your own proposition, at least in part, it will prove by far the cheapest way. The ordinary money lender comes high, as we all

know by hearsay if not by actual hard experience.

The one great cause of business failure in this country is lack of capital. This is just as true of the little enterprises as it is of the big. It is just as true, far more so indeed, of the corner grocery store, than of the great city concern.

Day in and day out there is a desperate cry from all over this country for capital, capital. Men who are brilliant inventors, who own large tracts of valuable mineral land, even managers who are able to build railroads, do not know where to turn for money. They have had a vision. They know that with money enough they can make profits for themselves and for investors, and benefit the community to boot. But they have no money of their own, and bankers and investors will not lend unless the originator of the scheme puts up something as an evidence of good faith.

The best opportunity in the world means nothing if you are not able to grasp it. "If wishes were horses beggars would ride." No one suffers more than the poor inventor. He has something more than opportunity. He has a real contribution to give the world. But it

will never make good without capital. Many an elderly inventor has sold the result of years of work for a mere trifle because he had no capital of his own to develop it. Of course every inventor can not save a fortune, or even a modest sum. But if he has been working at a regular trade he should have been able to save enough at least to seize the great opportunity when it comes.

The young man with five hundred dollars to start business with in a small way does not find it hard to persuade some acquaintance with idle money looking for an opening to lend him another five hundred dollars. But the most silver-tongued young person with no capital of his own will not find it easy to drag out even a few dollars to start in business. When we meet our opportunity nothing so counts as ready money. The only way to have ready money is to begin to save, RIGHT NOW.

It may be said that many professional men, physicians, teachers, literary persons, artists and musicians are careless with money and yet seem to be happy and contented. I am sure they are not so contented or so happy as they would be if they were prudent and careful. But

it is true that such persons may succeed in their own work even if they do incur debts and live beyond their incomes.

But the business man, and by far the vast majority of all working men and women are engaged in "business," can not be extravagant or imprudent. It means certain failure. The very core and heart of business is sensible economy. Moreover it is not so much actual cash that counts in business as credit. But credit never comes unless there is cash to begin with, and assuredly it never is extended to the reckless and improvident.

It is a much disputed question whether in this day of big corporations there are as many opportunities for the individual business man as formerly. On the one hand there is a tendency for big corporations to swallow up little ones and for most men to work for salaries and wages rather than for profits. But then there are new industries constantly springing up, like the automobile and motion pictures, which furnish openings for the small capitalist. At any rate the man who works for a salary or wages has great opportunities no less than the owner of a business.

What a man saves from his earnings is capi-

tal just as much as what another man puts into a business of his own. It is a sinking fund, a reserve, a surplus, all to be used at the right moment for seizing investment opportunities. Even if this is not the day of business openings, which I do not grant, it is the day of big salaries and that means many an investment opportunity.

It is just as possible to earn a great salary to-day as it was to build up a great business two generations ago. For more than a year *McClure's Magazine* ran a series of articles descriptive of men who drew one hundred thousand dollars a year salaries, many of them men whom the public had never heard of. And the writer knows of scores of others that were not mentioned in those articles.

A great advantage of having saved a little money is that it gives one a much greater freedom of movement, a wider sphere of action. Without a nest-egg one is not in a good position to bargain for higher wages or salary, or for a better position. It is a commonplace remark of business life that employers always seem to know when a worker is not in a position to refuse their offer. This is true of every sphere. The college professor who has several offers, or

who has several thousand dollars saved, can come much nearer to dictating his own terms than the teacher with nothing but his brains and ability.

Without any money a man must take the first job offered. He can not go from place to place. He can not travel. As a result the job and the man do not come together. The number of "square pegs in round holes" is greatly increased. Often there is such a thing as financing one's self through a lean period to one which is much fatter. A month's idleness in which to look the world over from the outside often results in a far better position. Many men have started toward real success in life by resigning their positions and taking another at one half the salary.

I believe one reason so many rich men's sons get ahead is because they can afford to take time to find just the right opening. The poor boy has no rich father to maintain him in temporary but productive idleness. He must provide for that object himself.

Every few years a time comes when good sound stocks go far below their real worth because the financial world is upset by panic or

war. Even the most conservative bonds sell at times at such low prices that the buyer really receives one or two per cent. more than in normal periods. These waves go over the whole world and may not affect in the least the merit of the particular company in which one invests. In nearly every locality houses and lots are offered for sale now and then at ridiculously low prices because the owners are hard pressed or obliged to move suddenly. In every field of business this is true. Are you one of those who must let these favorable chances slip through your fingers, or have you saved enough to profit by them? Are you ready?

No one has ever put the idea of grasping opportunity by means of saving into clearer words than Marshall Field:

"In the first place it creates determination. This at the start. Then it develops steady purpose; then sustained energy. Soon it produces alert discriminating intelligence. These all rapidly grow into an ability that enables him to take the money he has accumulated (even though small in amount) and employ it with profit. Better and better returns follow up his efforts."

FIVE RULES FOR GETTING RICH

Spend less than you earn.

Never run in debt.

Never anticipate uncertain profits by expending them before received.

Keep a regular account of your earnings and expenses.

Start a savings-bank account.

CHAPTER VIII

MAKING MONEY WORK

MEN with great natural aptitude as money-makers often administer their finances badly and receive practically no benefit from the money they earn. Perhaps they are extravagant, or inefficient spenders. More frequently such men are poor investors. In the use of money, in its employment and administration, investment is fully as important as saving. Indeed saving in itself is merely a primary or elementary stage which precedes investing

Any one who adopts a policy of saving should automatically adopt a policy of investing, because savings will return the surest and greatest benefits only when productively employed. Not to invest what one has saved is like putting a boy through a long technical course at college at great sacrifice to the parents and then letting him remain idle.

The truth is that the word thrift means in-

creasing one's money through wise and conservative investments just as much as it includes the original earning of money and the ability to keep it by cutting out extravagance and waste.

This is not the place to try to tell how much hard-earned and in many cases hard-saved money is lost through ill advised investments. Suffice it to say that hundreds of thousands of earnest, devoted, serious-minded men and women have learned the lesson of economy, even of privation, only to lose every cent.

I am not at all sure but that extravagance and even waste are better than poor investment. Perhaps there is some moral discipline, some chastening of the spirit, in working early and late for years and then losing one's all. But that is too bitter a philosophy. Better far to "blow in" one's money, and have a good time. If you can't invest safely then by all means stop saving money now and spend your money while it lasts.

A great many people lose money because they never try to learn anything about investing it. They regard the subject as a difficult one, and then when they have money to put to work, are easily misled through their ignorance. Vast

sums have been lost because the owners, and this applies perhaps more to women than to men, are afraid of the word FINANCE. It sounds dry and difficult, so they leave it alone.

"I don't know anything about finance" is the half despairing, half apologetic statement made to me by scores of women.

But safe investment is not a matter of finance at all, primarily. It is a matter of *common sense* and *suitability*, as I shall endeavor to show in the next few chapters. There is no excuse for not knowing something about it, any more than for most people in this country is there excuse for not learning to read and write.

The great advantage of investing money over merely sticking it away in an old box is that it will work for you. We speak of people living on their incomes. Well, that is merely a case of money working instead of the owners working. Most of us have no respect for persons who are always idle, living entirely on their income all their lives. But we are just as firmly convinced, at least most of us are, that when people work hard for money there is no crime in the money working for them later on when they grow old or become incapacitated.

Money earns what is called interest, which is nothing but a sort of back salary to those who have denied themselves the immediate pleasures of spending in order to assure to themselves the future benefits. If working money did not earn interest, all but a few misers who love gold just because of its looks would spend it at once.

Not only does money earn interest (if it is safely invested) but there is such a thing as compound interest. If you put one hundred dollars in a bank at four per cent. for a year, at the end of one year there will be one hundred and four dollars and the next year the bank will pay four per cent. on one hundred and four dollars instead of on one hundred. In this way small humble sums mount rapidly to impressive totals. Many a fortune has started this way, for when a man commences to invest money, he has started a snowball rolling downhill; and it keeps growing larger at a rate that astonishes those who never had experience in such matters.

The silent but incessant workings of compound interest are well illustrated by the following tabulation:

$1,000 with Interest Compounded Annually

Annual Interest rate	Would Amount to in 5 years	Would Amount to in 10 years	Would more than double itself in
4%	$1,216.65	$1,480.24	18 years
5%	1,276,28	1,628.90	15 years
6%	1,338.23	1,790.85	12 years

In fifty years one thousand dollars will grow to seven thousand two hundred and forty-two dollars with no further investment. Of course very few depositors would live to benefit from a fifty-year deposit, but every now and then we read in the newspapers about a savings-bank account which has lain dormant for a number of years. The depositor has died or moved away and forgotten all about the account he started in the bank. Then a claimant for the account comes to light, and it is found that compound interest has largely increased the original account, and in some cases, what was only a small surplus has, by the lapse of years and the steady operation of compound interest, become a modest fortune.

In an effort to induce people to save and in-

vest, a great many articles have been published in newspapers and magazines showing by figures what compound interest will accomplish. Many of these tabulations are confusing and still more are misleading, because it is not easy to compound interest at five, six or seven per cent., as so lightly assumed by many writers on these subjects. It is far safer to assume that money is compounded at four per cent. because practically all savings-banks pay that rate.

Compound interest is not in itself an important element in saving money by itself. If you deposit one dollar and add nothing to it generations must elapse before that dollar grows into a really large sum, even though at four per cent. it doubles itself in about eighteen years. But compound interest becomes a factor to reckon with when to a small original sum moderate amounts are *regularly* and *persistently* added.

A young man with a salary of twenty dollars a week might in many cases save five dollars a week. Perhaps few of my readers realize that by putting five dollars a week in the savings-bank there will in twenty-eight years be accumulated a sum large enough to *itself* earn interest of twenty dollars a week, assuming that

as soon as one thousand dollars are accumulated in the bank at four per cent. interest, it be removed and safely invested in six per cent. mortgages, a fairly reasonable assumption. You can figure this easily for yourself. Even one dollar a week will do wonders. If you persistently deposit every week in the savings-bank, assuming that the interest rate remains at four per cent, the result will be as follows:

$1 a week in five years will be $ 286.00
$1 a week in ten years will be $ 634.64
$5 a week in five years will be $1,430.48
$5 a week in ten years will be $3,174.10

To invest what you save from your earnings and reinvest what you earn from your savings is a good rule for getting on in the world. Interest upon interest, that is the secret, combined with frugality and sound investment, of many big fortunes.

CHAPTER IX

YOUR BEST PARTNER—A BANK-ACCOUNT

RARELY does any man achieve business success without first forming a strong and close association with a carefully selected bank. Likewise a bank-account is the initial step toward the fruitful investment of money. The bank comes first in the whole industrial and commercial system—and it is just as necessary to the individual as to the civilization in which it works.

These are no idle words—this advice to young men to form an affiliation with a strong bank. If there were any way of tabulating the countless disappointments of life, the business failures, the bitter struggles to achieve impossible commercial results, all because of ignorance of what banks require of borrowers or unwillingness to measure up to their reasonable requirements—if all this could be presented in a few words, it might make an impression that no mere advice can make. My own personal

correspondence has been filled with bitter complaints from disappointed seekers of capital, letters which would never have been composed if their writers had formed a banking connection.

It may be objected that this book is being written not for borrowers of money, but for savers and investors. My answer is that the bank is absolutely necessary to them as well. A banking connection is of value to any one, whether he does business or not, because such an affiliation gives a man a better standing in his community, in business and out of it. The man who pays his bills promptly and has a little money in the bank, no matter how little, provided it is not such a small sum as to be a nuisance to the bank, has something he can call his own and owes to nobody. The mere fact that he has it is always considered *prima facie* evidence of good standing. His credit is better than the man's who has no bank-account.

No man should tie up all his money in the various forms of investments, no matter how safe. Life-insurance, a home, mortgages, bonds —these are all very well in their place, but there's nothing like real ready money as an evidence of independence and prosperity. It is

well to have plenty of cash immediately available, for no one can foresee the need of it. There are many urgent calls for money in every man's life, and a bank deposit is far easier to get at than most investments.

But the fact is that very few persons go through life without wanting to borrow money first or last. They may need it to tide them over a period of unemployment or illness. More often they want a small loan to take advantage of a favorable business opening. Now to become a bank depositor is a simple process. The best way to open an account is to get a personal or written introduction from some one who is already a depositor. In a small town an introduction may not be necessary, because a hard-working, thrifty, steady young man is pretty sure to be known by hearsay at least to the bank officers. If you are a total stranger to the bank, you will create a good impression and save trouble by having this clause appear in the letter of introduction: "Whose signature appears below for purposes of identification." Below the body of the letter, the following should appear: "Mr. ___________________'s signature, for purposes of introduction."

Often it is not necessary to appear in person

to open a bank-account. Numerous institutions transact a banking business by mail, including several of the largest and strongest concerns in this country. It saves time and is absolutely safe. Even where you live in the same town it is often convenient to deposit checks by mail. A bank-account may be conducted by mail no matter where a person lives. Millions of dollars travel back and forth in perfect safety.

If it is desired to deposit money by mail it can be sent without being registered in the form of post-office or express money order, bank draft or check, provided the check is endorsed on the back as follows:

Pay to the order of the First National Bank
Sign your name

Cash or coupons should not be sent by mail, although bills may go that way if registered. Withdrawals may be made just as conveniently. The signature on the letter is sufficient identification, because the bank compares it with the signature on file at its offices.

The first thing a depositor in a bank should learn is how to draw a check. The American Bankers' Association has explained the right way in very simple language. In the first place,

it is stated, the figures should be plainly made, so that no question can arise as to the amount. If a figure is carelessly made, so that it confuses those who handle the check, numberless hours of work may follow. For instance, if a bank receives a check for $1.88 with a poor "8," and a clerk lists it as $1.08, it may take many hours' time to find the difference, and the entire day's work may have to be gone over. The rule should be: *never make a figure that may be mistaken and never pass one that is in doubt* —correct it by crossing out the bad and making a good one alongside.

Second. The words and figures should agree. The law says that if the two are different, the written words govern, but make both carefully and get them alike.

Third. Begin the writing well to the left of the writing space and fill in the unused space with a wavy line. Begin the figures well up against the $ sign and make the character 00/00 after, but close up against the figures. Use a good black ink and write firmly, so that plenty of ink gets into the fiber of the paper.

Fourth. Always write your name *exactly* as you wrote it on the bank's signature card. "Mrs. William Smith" may be the same person

as "Mary V. Smith," but the bank-account doesn't stand that way.

Adopt one signature and stick to it. Do not flourish nor make a fancy signature. Handwriting experts will tell you that a plain distinctive signature, with no furbelows, is the most difficult to forge.

The law of forgery is that the bank is bound to know your signature, and pays a forged instrument at its peril. The risk is all theirs, but that is not to say you should not help eliminate the chance of forgery by taking care that your checks are properly drawn. If you are grossly negligent, you might have to stand the loss yourself. Better be safe than sorry. There are numerous protecting devices on the market, some better than others, and these may be used as added safeguards; but there is no rule of law that compels you to do so. You are safe if you follow the above suggestions, but safer if you use a protecting device, for then you can not be charged with any negligence in making your checks forgery proof. Do not make it easy to work a fraud through your account. Do not give checks to strangers. Do not leave your check-book lying around. Do not leave a signed check where it may be filled in and used.

Having made a deposit, show that you have common sense by not at once checking most of the money out. If you intend to go into business for yourself later on, don't do anything that will injure your character standing in the community in the opinion of your banker. Don't be extravagant or dissipated. Your bank is sure to hear of it, sooner or later. Don't allow yourself to be posted at a club for non-payment of dues. Pay all bills promptly. These things seem trivial, but they weigh heavily with a bank officer. Above all, don't under any circumstances get the reputation of being inattentive to business. Regular habits and persistent industry will count in your favor when the time comes for a loan.

When you first open a bank-account, don't be foolish enough to ask for a loan immediately. Never change from bank to bank if you can help it. If you have creditors, they will hear of it and get suspicious; and of course the bankers will. If you should change your account, and if the new bank asks why you are making the change, don't say: "Oh, they did not treat me well over there."

This book is written primarily for the young man who is making his first plunge into business and a bank-account. When the time comes

for him to borrow, he should lay all his cards on the table. If he conceals anything, even though it is a trivial matter, the evasion will injure his credit later. The bank wants to know the worst in the beginning. Nine times out of ten the basis for bank loans is the average deposit balance the borrower has been keeping for some length of time. If the young man has had, say five hundred dollars on deposit for a year or two, has a good reputation, and makes a clean statement of what he wants the money for, he can usually borrow about two thousand dollars.

Don't be timid about asking for a loan if you have lived up to these qualifications. Remember that if you lose the bank's money nothing worse than a foreclosure at the most can happen to you. But if the banker loses his depositor's money he may go to jail. He is right in being wary.

Especially where a fairly good-sized deposit is kept on hand, and by good-sized I do not mean many thousands, the bank usually feels under obligation to lend to a depositor on more advantageous terms than to others. It can do this because it is more or less acquainted with the depositor's affairs, and can accept personal credit, such as a note secured perhaps by noth-

ing except a neighbor's endorsement, where other banks would require collateral security, such as bonds, mortgages and insurance policies. Naturally, in their dealings with regular depositors, the bank's officers become well acquainted with their character and their resources and are thus in a position to determine to how large a line of credit each one is entitled. But the chief advantages come in time of panic, when funds are needed most and when all banks refuse to lend to other than depositors.

In no business is character more necessary than in banking. This is because of the very nature of a bank—because of the fundamental theory upon which it rests. In any community a bank is the personification of confidence, or should be. To extend credit, to "trust" customers, this can be done safely only when there is character behind them.

But don't trust entirely to your character, your "proposition," or even to the fact that you have kept a pretty good-sized and regular balance. Be able to tell your banker, when you approach him for a loan, that you have some life-insurance or other property aside from that which he is immediately concerned in. It reassures him tremendously, even if it is only

two or three sound one-hundred-dollar bonds, or a few shares of a standard railroad stock. A man who stands well with his bank has a capital that can not be taken away from him, no matter what else happens. But you will stand better with your bank if you have a little nest-egg somewhere else.

Don't expect your banker to be impressed by unsalable, unknown securities. Two shares of stock of the kind plainly indicated by a great English novelist are better for the purpose than sheaves of "cats and dogs."

"They were the finest in the market, the aristocracy of investments, based on enterprises of which every business man . . . knew the entire soundness. They conferred distinction on the possessor, like a great picture or a rare volume. They stifled all questions and insinuations. Put before any jury . . . as an evidence of character, they would almost have exculpated a murderer."

But loans are by no means the only advantages a bank depositor enjoys. Once he has made his first deposit in cash or in checks, he is at liberty to draw upon this account of his by means of his own checks, payable to any one whom he chooses to make them payable to.

How to write a check has already been described.

This service which a bank renders is so commonplace that we rarely think of it. The bank takes checks and pays them, taking the risk of the checks not being genuine and the possibility of the money being paid to the wrong person. This service is of great value to the depositor, as it saves him the inconvenience and expense of making cash payments. It saves him the chance of loss and robbery incident to keeping on his person or premises a large sum of cash. The bank charges nothing for this service, provided only the depositor does not draw his account down below a small minimum.

Thus the bank depositor is able to pay bills by mail with the liability of loss reduced to a minimum. This payment of bills by means of check does away with the necessity of receiving and retaining receipts. A check can not be cashed until the person to whom it is made out indorses it on the back. Thus the bill is automatically and legally receipted, because the check in course of time is returned to the depositor who made it out. Another advantage already referred to is that the customer can

deposit or withdraw money by mail at a distance.

The bank will collect checks that the depositor has received on other banks, even from far distant cities. Usually nothing is charged for this service, even when the amount is as small as one dollar. This is a great convenience for a depositor. The value of this is little realized by most of us. You can best understand it by thinking out some good plan for collecting the money on these checks without using a bank for the purpose. Banks also collect bond coupons and receive dividends for free collection.

Banks relieve depositors of the risk of caring for coins and bills. Bank burglaries are extremely rare as compared with those in private residences. Banks, of course, maintain burglar and fire proof safe-deposit vaults far stronger than most individuals could afford to have. This is a prevention against fire as well as robbery.

A bank deposit (except a time deposit, known commonly as a certificate of deposit) is repayable on demand. Not only must the bank pay back the full amount which is deposited, but it

also agrees to pay any sum within the total amount, and if it fails to do so, it may be sued for damages. The bank is legally responsible to the depositor for every penny, which is not true in anything like the same sense of most investments. The depositor has an evidence always at hand of his deposit, in addition to the books of the bank itself. If he has taken out a certificate of deposit, he holds the certificate itself; if his account is subject to check he has a pass book.

If the depositor agrees to leave a fixed sum with the bank for, say, six months without checking it out, he often receives two or three per cent. interest.

Practically all state banks and trust companies and loan and trust companies pay interest, usually as high as two per cent. even on accounts subject to check, the interest being computed on daily balances, provided there is a fixed minimum. The rate paid varies and the required minimum daily balance varies, but in New York few banking institutions pay on balances of less than five hundred dollars. In smaller cities and towns the minimum is usually less. It is all a matter of personal negotiation and depends upon the locality. No general rules

can be laid down. National banks are less inclined than others to pay interest on balances, unless the deposit is very large and inactive, that is, not subject to frequent checking.

If a depositor does not ask for interest on his checking account he is often allowed, even by the largest banks, to keep a very low balance. Often a charge is made if the account is allowed to fall below fifty dollars or twenty-five dollars, but this custom is by no means universal. There is no direct profit to a bank in checking accounts that fall so low, and as all business is based on mutual benefit in the long run, I advise young men to try to keep their bank-accounts if possible always up to several hundred dollars or more. When the banker accepts your account, and gives you a pass book and a check-book, he has the right to expect certain things from you, as you have the right, legally and morally, to expect certain things from him.

In the first place, he has the right to expect a profit from your account. Banking is an expensive business. It costs a certain amount to handle every check that passes through the bank, and every account should contribute a portion to the expenses of the bank, however small. When your banker asks you to keep a

certain balance, he is merely asking his right to a profit from your account. It is easily to be seen that if you keep a small balance, say ten dollars, and the banker furnishes you with stationery, does the necessary bookkeeping on the account (for your benefit as well as his), the earning power of that ten dollars, even if it were all invested at six per cent., would be insufficient to compensate him for the cost attending that account.

Second. Never overdraw. In national banks overdrafts are now forbidden, but whether they were or not, you have no right to ask it. It hurts your credit with the banker. It is a forced loan without security, and is poor business practise.

Sometimes an overdraft is allowed as a matter of accommodation, and sometimes in order that the credit of the drawer with the holder of the check may not be impaired; but it is bad practise, gets you in wrong all over and should neither be asked nor expected.

Third. Do not draw against "Uncollected funds." By uncollected funds is meant checks that have not been collected. For instance, if you have a balance of one hundred dollars, and deposit a hundred-dollar check and draw your

own check for one hundred and fifty dollars, you have taken all the original deposit and half of the amount represented by the check just deposited. The banker must send that check, let us say to New York, and wait for advice that it is paid before knowing that it has been paid, which may take three or four days. You are asking him to pay out his money three days in advance of its receipt, a practise which good banks frown upon and will not allow.

Lastly have your pass book balanced once a month. Doing these things consistently, your banker will be a good friend and you will be a good customer, in favor with one who can do you many favors.

There is one other service which your bank will perform for you, almost always without charge. It furnishes business information, suggestions and advice. It will obtain special information, through banks in other cities. Indeed this is the commonest and surest way of obtaining much valuable information. It is chiefly through your bank that reliable data may be had regarding investments and the standing of brokers or other business concerns both in your own and in other localities. Do you want to know about a firm in Dallas, Texas,

for example? Ask your bank to write to a bank in Dallas for the information.

The man who puts money in the bank regularly and keeps a fairly good-sized balance there is in many ways in a better position than any one else to make favorable investments. Not only is he in a better position to obtain information, but if he needs money to complete his payments on some especially desirable investment he is in a position to borrow it. Innumerable men have made safe and profitable investments with the assistance of their banks. The banker is always glad to help a customer acquire property.

CHAPTER X

YOUR BEST PARTNER—A BANK-ACCOUNT

(Continued)

TRUST COMPANIES

ALTHOUGH a bank-account is your best partner, it can not meet all the problems that arise from the possession of money and property. You will find a powerful ally of the bank in the *trust company.* The two institutions supplement each other in their services to the depositor.

A trust company is a banking institution—but something more than that. It has all the powers and functions of a bank—plus many others. As a banking institution, a trust company can usually give you the same facilities as a state or national bank. It is true also, that under the new Federal Reserve Law many national banks can likewise engage in trust operations. Most trust companies pay interest on

deposits subject to check—say about two or two and a half per cent. This fact, together with the great range of services performed by these institutions, has attracted large deposits to the trust companies. In the last few years, the resources of these institutions have grown enormously.

Briefly summarized, here is a list of individual "trust" services performed by a trust company. It acts:

1 As (a) executor, (b) administrator, (c) custodian, (d) trustee of wills and estates.

2 As guardian of minors and incompetents.

3 As depository under escrows, that is, when money is placed by the mutual agreement between two parties into the hands of a third party, to be held until the fulfillment of some condition.

4 As custodian of stocks and bonds and mortgages.

5 As custodian of other property—jewelry, valuable documents, silverware, etc., in safe-deposit vaults.

It is becoming more and more customary to appoint a trust company as executor, trustee, guardian or administrator. There are two good reasons for this. In the first place, a trust

company is a permanent institution, uninterrupted in its work by individual incapacity, unwillingness, delay or death. In the second place, a trust company can usually perform the services mentioned far better than an individual, because it has experts at its disposal, because it has efficient organization, vast experience, great resources and a wide knowledge of financial conditions.

Take the matter of wills. When left in the hands of individual executors, estates are often delayed in settlement and shrink considerably in the course of the legal proceedings, not through dishonesty, but through lack of specialized experience. Trust companies provide this experience and efficiency. Moreover, a trust company can not be swayed by sentiment or personal influence exerted by contending parties. It must adhere unflinchingly to the letter and spirit of the law.

The fee of an executor is fixed by law, and is the same whether the work is performed by an individual or an institution.

The services extended by the trust company are genuine "worry-savers." Besides the matter of wills, the most important of these services are the safe-keeping of securities, the

management of property, and the collection of income. Under this form of "custodianship," for which a small fee is charged, the trust company takes your securities, gives you a receipt for them, lists them in books of record and locks them in your vaults. It collects income the day it is due and credits the amount to your checking-account. This service saves the trouble of making out income tax certificates, collecting coupons, collecting interest and dividends, watching tax payments, collecting rents and supervising real estate and collecting income from other sources. It puts a powerful and efficient system at your service, supervising everything down to the smallest detail.

A well-organized trust company is always ready to advise its depositors on investments. The advice given is suggestive, rather than rigid. It is in the form of facts, not opinions.

SAVINGS-BANKS

In speaking of banks I have had in mind up to this point the "commercial" bank, organized under national or state laws, or the trust company, rather than savings-banks, or savings departments of ordinary banks and trust com-

panies. A savings-bank is really an investment institution more than it is a bank in the ordinary sense of the word. While a great deal of what already has been said applies to savings-banks also, it is necessary to explain their operations a little more in detail. The commercial bank invests its funds in the credit of business men, lends them money, in other words. The savings-bank invests its money more extensively in bonds, stocks and mortgages. The commercial bank performs its chief service to depositors by providing them with checking accounts and making loans to them. Paying them interest is only incidental. The savings-bank usually does not permit a checking account, but it pays a larger rate of interest. It is primarily for the investment of small sums rather than for financial convenience.

Savings-banks pay an average rate of interest running from three to four and a half per cent. There are several kinds of savings-banks, depending largely upon the laws of the states in which they are organized and located. In a few of the eastern states the only savings-banks permitted at all are the "mutual" kind, where all the earnings go to the depositors either as interest or as a surplus fund further to protect

them. Except where the laws permit only these mutual institutions, savings-banks or savings departments in commercial banks and trust companies must be judged as other banks are, on their individual business merits. It should be added, however, that in many states the laws regulate so closely and carefully what investments shall be made that failure is rare in the extreme.

The very first step in investment is to learn to use a savings-bank. Don't save five or ten dollars and carry it around in your pocket. It will burn holes.

The savings-bank and the savings departments of other sound banks were instituted for the small saver. Their fundamental purpose is to assemble the savings of the masses, invest them wisely and pay over a goodly share of the profits by way of interest-dividends to the depositors. One savings-bank in New York City has paid out eighty-eight million dollars in interest on deposits in seventy-five years, nearly all to relatively poor people. In such an institution the small investor is on safe ground. He can not, as a rule, go wrong.

The advantages of a savings-bank for investment purposes are easy to state:

It has stood the test of time. More people invest their money in this way than in any other, except perhaps in life-insurance. There are more than four billion dollars in savings-accounts. About ten per cent. of the people of this country are depositors.

Safety. In addition to most careful laws regulating the investments of savings-banks, more rigid than are usually followed by individuals, is the highly important fact that the bank distributes its investments over such a wide variety of securities, that loss in one direction is minimized by the soundness of other securities. This the average individual can not afford to do in his own investments. In other words the savings-bank insures itself against total or even moderate-sized loss by the variety of its purchases. Recent statistics showed the total liabilities of failed savings-banks in proportion to the aggregate deposits of all such banks to be only about six ten-thousandths of one per cent. (.0006%). Deduction for the amount realized on the substantial assets of those few unfortunate institutions still further reduces the already infinitesimal loss to depositors.

Convenience. This is very great. The aver-

age investor is without experience or education in the selection of stocks and bonds and he can put his money in a savings-bank practically without the study or detailed investigation which is needed in making a direct investment, and receives almost the same income as from the very highest grade of bonds. He has to deal with small sums, in odd amounts and at irregular intervals, and even the largest savings-bank will take any sum over a dollar, and often as low as five or ten cents, at any time. There are very few other suitable investments for such small odd sums available at all times. In attempting to find them one often meets with bitter experience and loss.

Another convenience is that unlike most other investments any form of bank deposit may be converted back into money, usually without any notice whatever and at any moment without loss or shrinkage. Only in times of panic is the so-called thirty- or sixty-day notice rule enforced. While there is usually a maximum of deposits permitted to any one person, it is practically never below one thousand dollars, and usually as high as three thousand or five thousand dollars.

Compound Interest. The investor in bonds or

stocks must collect his interest or dividends, and if he does not use the money, must attend personally to investing it. Interest allowed by the savings-bank at the end of a given period, if not withdrawn, is placed to the depositor's credit, and itself draws interest from that time on, thus automatically becoming a part of the deposit. That means a constant increase in the amount at interest, and in the interest payments, besides being a great convenience.

Freedom from Tax. In most states, savings-bank deposits are free from taxation by state or local authorities.

For those whose great consideration is convenience in paying bills by checks, or to a business man needing loans, an ordinary commercial bank or trust company is more suitable. To all other persons a savings-account is the way to start on the road to success. Great numbers of persons can afford and should have both kinds of bank-accounts.

A savings-bank account is practically always the best investment for a boy or girl. A successful man in Washington, D. C., heard about my plan to write this book and wrote as follows:

"Having a crowd of boys of my own coming

along and pushing Dad for all he is worth, I have often wondered why boys should be allowed to reach manhood, educated in every other way, but absolutely lacking in the elementary principles of practical business. Did you ever realize the few accounts carried in savings-banks by very young men? That is to say, when a very young man starts, often having no board to pay and his father willing to help all he can, but the father is not constructive and fails to teach his son to begin life by banking money."

What a really "constructive" man can accomplish in starting boys in the right direction has been told by the *Associated Sunday Magazine*:

"Can you remember how much a dollar meant to you back in those days when your chief ambition was to drive a railway locomotive? It was wealth; it represented a bushel of marbles and a basketful of 'jacks.' 'Daddy' Silverwood of Los Angeles remembers that when he was thirteen years old he was penniless and homeless; to-day he is wealthy, and the most jovial man on the Pacific coast. He can afford to be for he has started five thousand bank-acocunts of one

dollar each for boys. His remarkable thrift campaign was begun on January 1, 1909, when he opened savings-bank accounts for five hundred boys, depositing one dollar to the credit of each. He wrote each boy this letter:

"'*Dear Young Friend:* You are one of five hundred boys I have selected in southern California for whom I am opening a bank-account. One dollar has been deposited to your credit in the Los Angeles Trust & Savings Bank, corner Sixth and Spring Streets. I have stipulated that it remain there five years, except in the case of sickness or death, for the reason that I want to add to it from time to time if you endeavor to do the same.

"'I started out in life a very poor boy, and at fourteen years of age was earning my living and paying my board.

"'You are living in a land where nobody is held down by caste—in a country where poor boys from the farm go to the White House; where even boys from the slums become our legislators; where brakemen and even section hands become railway presidents; where the poorest boys become our merchant princes, our great bankers and financiers; where the great factories and institutions of every description

are built up by boys with no opportunity except their own energy and integrity.

"'History has proved many thousand times the disadvantages of too many advantages. Trusting that you will decide to be one of the great men of the future, I remain

"'Yours sincerely,

"'F. B. Silverwood.'

"Each boy also was invited to call on or telephone Mr. Silverwood.

"The spontaneous replies to this letter—the personal visits and telephone conversations—showed that the youngsters were deeply interested in the plan and eager to cooperate. A résumé at the end of the first year convinced the merchant that his school for thrift was succeeding. A newsboy accumulated two hundred and seventy-five dollars; several other lads saved more than one hundred dollars; three-fourths of those for whom accounts were opened fulfilled the requirements.

"At the beginning of each new year following Mr. Silverwood established banking connections for five hundred or more boys. Every boy on the carefully kept roll receives from two to five letters a year and a present at Christmas. The

communications from the boys and their mothers are answered and filed. A secretary attends to most of the correspondence and other details connected with the enterprise, but Mr. Silverwood has made it an unbroken rule from the first to talk with every boy who calls on him, and an average of five a day are received in his back office.

"The encouraging progress made by his wards during 1915 in acquiring habits of thrift induced Mr. Silverwood to open accounts for seven hundred more boys on January 1, 1916, making a total of five thousand. The balances of the youthful depositors at the close of the old year aggregated seventeen thousand dollars.

"Among the many interesting and enlightening records filed is that of an errand-boy with a widowed mother who, by his energy and economy, is now an instructor in Stanford University. After this boy had graduated at high school, his benefactor learned that he was contributing to the support of the mother and was unable to continue his education.

" 'How much do you give your mother every week?' Mr. Silverwood inquired.

" 'Seven dollars and a half.'

" 'If I arrange for her to receive that amount

regularly, can you work your way through the university?'

"'I certainly can,' the boy replied with determination.

"The seven dollars and a half went to the mother regularly for four years. The son graduated with honors at the university."

ON BEING AFRAID OF BANKS

Some people are afraid of all banks. Of course, there are strong and weak banks, but as a rule there is no other class of institution so easy to find out about as a bank. If a bank is not all right, people will talk about it. Don't put your money in until you have inquired about it of several business men of good standing. It is practically impossible for a bank to fail so badly that depositors suffer a heavy loss without the good name of the bank having been justly befouled for months beforehand throughout the community.

No sensible person puts money into a bank that he knows nothing about, or regarding whose officers he has never heard. Of all men, bankers should have a good clean reputation in their home community. The leading

bank in a western New York town "went under" several years ago and depositors lost nearly everything. But there had been rumors regarding that institution for months beforehand. Every inhabitant of the town knew that the cashier who ran the bank, was a "sport," that he associated with low women and gambled. He was never worth a moment's confidence, and many sensible people never did trust him. But there were others so charmed with his winning personality that they lost every penny they had.

Clean living, freedom from gambling and good judgment are what a banker needs, and those are qualities whose presence or absence is generally pretty well known to the whole community.

It is true that banks sometimes fail, but the proportion of failures to total deposits is insignificant. Even when banks do go under and the stockholders lose everything the depositors are usually paid off in full.

The stockholders of all national banks and nearly all state banks and trust companies are under a double liability to the depositors, which means that they can be and almost always are forced in case of failure to pay up an amount

double their stock holdings for the benefit of those who have deposits.

Several times a year banks are thoroughly examined by representatives of the state or national banking authorities, as the case may be, and also by representatives of their boards of directors.

The examiners count all the cash on hand down to the last penny, then check off all the bonds and other investment securities owned by the bank, as well as the collateral on which it has loaned money. They examine all the notes discounted, verify all balances due to and from other banks, by obtaining from them a formal certifying as to balances.

In addition the officers and more important employees are bonded, so that defalcations do not result in actual loss to the bank itself. Besides actual examinations by national or state examiners and by representatives of the board of directors, banks are required to make several sworn and public statements each year. Often in case of failure the other institutions in the same city come to its rescue and take over the assets, first paying off all depositors. In the larger cities there is usually a Clearing House Association of all the banks which often

includes the trust companies, and representatives of this association exercise a rigid supervision of the affairs of all of its members.

In actual practise there are fewer losses and fewer mistakes, by far, in the banking than in any other business. Has it ever occurred to you that if your bank made as many errors in figuring your balance as the average merchant does in making out your bills, or if it lost as much money as the average business man loses, you would have no confidence in it at all?

CHAPTER XI

THE BEST INSURANCE POLICY

IF a young man can afford only one investment, and especially if others are dependent upon his earnings, life-insurance is always the best. It comes first; it is most elementary, fundamental and essential. Death is the one sure thing. To the majority of families, the death of a breadwinner means privation, trouble and bitterness. In nearly all such instances, life-insurance will provide against the loss of earnings.

It is a strange thing that people will insure against loss by fire, which rarely happens, but fail to provide against the loss that comes from death, although this always happens. And it is not true that life-insurance benefits one's family only. It has very great and direct benefits to the person who becomes insured. There is no greater fallacy than the remark so often heard about life-insurance: "I must die to win."

Life-insurance is an absolute answer to those who say they can not save. If a man can not save enough to buy a small insurance policy there is only one place left for him, the county poor house. A few cents a week will do it.

The great point about life-insurance is that as soon as the first year's premium has been paid, the entire amount of the insurance is payable upon death. That is, by paying down a few hundred dollars, a man may provide his family with as much money as would have taken him twenty or thirty years to save. Of course, the man does not want to die, and his family does not want him to die, but the chance is always there, and if he does die all his good intentions about saving are worthless. Without life-insurance, every word that has been written in this book up to this point should be considered fit only for the waste-basket.

Suppose you die in the first year of saving. The savings-bank will return your deposit plus some interest; the insurance company will pay the full face of the policy. From the bank your family can get only what you *actually* saved—from the insurance company they will get what you *intended* to save. And how many people make savings-bank deposits regularly every

year? How many people leave them in the bank after they have started them? How numberless are the pretexts under which they are withdrawn and spent, or loaned and lost?

Suppose a young man twenty-five years old, married a year and expecting an addition to his family, saves three hundred dollars a year. Of that sum he puts one hundred dollars in the bank and two hundred dollars in life-insurance. If he dies a year later, his widow will receive one hundred and four dollars from the bank and ten thousand from the insurance company. Suppose he had put the entire three hundred dollars in the bank. What would become of his widow and unborn child with total resources of only three hundred and twelve dollars?

A firm in New York City, Moffat & Atwood, prepared a table which was published in the *American Magazine.* It shows how a family lives on a salary of six thousand five hundred, and also how they must live when the father dies leaving an estate of thirty thousand dollars, safely invested to produce fifteen hundred dollars a year income. The figures would be even more startling if a smaller salary had been used.

	A		B	
Rent	$85 per month	$1,020	$25 per month	$ 300
Food	$25 per week	1,300	$9 per week	460
Servants	Servant and Laundry	400	Laundry	156
Light & Fuel	Electricity and Kitchen Range $10.50 per month	126	$4 per month	48
Repairs	Crockery, Furniture, Household Supplies	120	50c per week	26
Wife	Clothing Pocket Money	400		150
Children	Clothing, Education, Two at $125 Each	250	Two at $85 Each	170
Personal	Clothing, Lunches Tobacco, Clubs, Fares, Sundries	750		none
Doctors	Doctors, Dentists Medicines	100		75
Charity & Presents		75		25
Amusements	Opera, Theater, Entertainment $5 per week	260	75c per week	39
Vacation	2 Weeks, 4 Persons, inc. R. R. Fares	200	10 days, 3 Persons, inc. R. R. Fares	40
Insurance Premiums	Life, $10,000	386		none
	Burglary	15		none
	Accident	25		none
	Fire	5		none
Annual Savings		1,068		11
		$6,500		$1,500

The above table demonstrates the tremendous shrinkage in income that occurs when the active earning capacity of the husband and father ceases. It immediately occurs to one that in order to have provided for the betterment of conditions under which his wife and children had to live after his death the man should have carried more insurance.

It is not necessary in this book to go into the theory or principles of life-insurance, but I want to say a word to the young man who does not understand how it is possible for an insurance company to make such big payments as those I have mentioned. The company knows from mortality statistics the exact average duration of life. Each person who is insured is a "risk." He may die to-morrow and then the company must lose heavily. But when you average hundreds of thousands and millions of lives, the risk is reduced to a certainty, and it is possible to determine the exact average cost of protecting all these people. Each person is charged enough so that his "premium," which is the amount he pays in, added to all the other premiums and invested, with allowance made for overhead expenses, equals the losses to be made good as the years go by.

I assume that only a safe and reliable company is selected from which to buy insurance. There are hundreds of such companies in the United States. It is entirely possible for the average man, exercising ordinary judgment and common sense, to determine for himself the soundness of the concern in which he insures. Any state insurance department, which can be

addressed at your state capital, will tell you whether any concern doing business in that state is reputable and dependable.

I shall have occasion to refer only to "old line" companies, eliminating fraternal and assessment insurance, because the latter are not on the whole on such a scientific basis. Among the reliable "old line" companies are those doing a so-called "industrial" business, which means the writing of small policies where premiums are collected weekly; stock companies; mutual companies; non-participating companies, in which no so-called "dividends" are ever paid to policy-holders; and participating companies, which do pay such dividends. Among all these there is little chance of making any disastrous mistake. Insurance among all the various kinds of companies tends to become more uniform and standardized.

Among the great advantages of life-insurance are these:

It eliminates worry and increases initiative. A man works much better if he knows his family is provided for.

It is absolutely safe. Among the "old line" companies there has been no failure and loss to policy-holders in a very long period. Insur-

ance companies spread their investments over so many different forms of securities that loss is practically impossible. Moreover, the companies are closely and minutely regulated by the state.

It encourages saving. People withdraw money from a savings-bank more freely than they stop making their insurance payments. An insurance premium comes to be looked upon somehow as a fixed charge, which must be met no matter what else fails. It has an apparent element of compulsion which forces people to save.

It is a great assistance in business, investment and home buying. A man buys a home on mortgage but is afraid that his widow will not be able to meet the mortgage if he dies. A life-insurance policy for the amount of the mortgage takes care of all that. For a small cost what is known as term insurance may be bought to hedge or provide against almost any conceivable business necessity.

Another great advantage of life insurance is that after the first two or three years a policy can be borrowed upon at the company at a fixed and moderate rate of interest. It may also be surrendered for cash for an amount

which steadily increases with the years, and tends to equal the face value of the policy after say twenty years. Thus one can *always* dispose of a life-insurance policy, which is not true of bonds, stocks, mortgages and real estate.

Nor is it necessary to pay as long as one lives on an insurance policy. After the first few years, it is possible to stop paying anything and have the insurance go right on for a smaller amount as long as you live. For example, one can stop at the end of twenty years on a policy for one thousand dollars and have five hundred and seventy-five dollars of "paid up" insurance the rest of one's life. Or at the end of twenty years one can stop paying anything and still have the whole one thousand dollars remain in force for thirteen years and five months longer.

In other words there is no catch about an insurance policy. It is all open and aboveboard. You are far more sure of what you are going to get than with any other kind of an investment, except a bank-account. It is all printed on the policy itself.

A great many people say they can invest money to greater advantage themselves. Perhaps they can if they live long enough. A man will have to be sure of living twenty or thirty

years to make his money earn more than a life-insurance policy. But as a matter of fact, a very large number of people who do invest for themselves, lose their money. Life-insurance practically never loses for you.

But what is the best life-insurance policy? What is the best one especially for a young man?

FORMS OF INSURANCE POLICIES

Whole Life Policy. This is the commonest and fundamental form, from which all others are derived. It provides for a fixed annual payment throughout the life of the insured, in return for which the company agrees to pay the face value of the policy upon the death of the insured to any beneficiary he may have designated.

Limited Payment Policy. Premiums are paid for only a limited number of years, although the company will pay the face value of the policy to the beneficiary whenever the insured person dies, no matter how long after the policy becomes paid up. Of course it costs more than the above.

Endowment Policy. Premiums are paid for

a specified number of years, fifteen, twenty, twenty-five, etc., at the end of which time the face value is paid back to the insured and if he dies any time before the specified period elapses the face value is paid to his beneficiary.

Term Policy. For a very low rate insurance can be obtained for a limited term of years, five or ten. This is temporary insurance. At the end of five or ten years, the insurance can be renewed only at a much higher rate.

The term policy is a good temporary expedient or makeshift because you can get more insurance for the same amount of money than in any other way. But it has no permanent value and has many drawbacks. I advise against it, except perhaps for business men of large means who wish to insure their business affairs rather than their families.

Endowment policies also should be avoided, unless that is the only way a man can save money. There are persons so constituted that only the compulsion of life-insurance will force them to save anything. Most endowment insurance is very expensive. Long-time endowments, say for forty years, however, do not have these disadvantages.

As between the twenty or thirty payment life

and whole life it is hard to choose; but, on the whole, I think the straight or whole life is better. It is urged in favor of limited payment life, that it enforces the payment of insurance premiums during the period of greatest earning capacity, and provides fully paid up protection by the time the insured is forty-five or fifty years old, when the expense of a growing family is perhaps the heaviest, and after which his earning power may be expected to grow less. This policy confines the burden to the young, healthy, and productive period of a man's life. And it is urged against the whole life policy that a man has to pay in the declining years of his life when insurance is not so much needed, and when he may be unable to pay because of smaller earning power. Of course much depends upon one's occupation.

These arguments are in many cases really beside the point. The supreme advantage of whole life insurance is that you get more insurance—that is, more protection—for the money than in any other permanent form. It gives the most *immediate protection,* which is exactly what a young man wants, because when he is young his children are so small as to be utterly helpless. For seventy-five dollars a year

a man of twenty-five can get at least five hundred dollars more insurance in whole life than by any other permanent plan. It is therefore desirable for the young man who has little if any other money to invest, and must devote all his available means for protecting his wife and young children.

The impression that one must pay premiums throughout life on a whole life policy is wrong. At any time a whole life policy can be changed over into a limited payment policy by increasing the premium; that is, it can be paid up. Many life-insurance policies pay dividends that tend to increase for a number of years, and the dividend can be used toward paying up the policy. These dividends, if left with the company, usually do actually pay up a policy in twenty-five or twenty-six years. Finally, as already explained, every insurance policy has a cash surrender value which grows larger as time goes on. Thus, if one has a whole life policy for, say, twenty years, after which the children have grown up and insurance is no longer needed, the policy can be surrendered for cash with practically no loss. Meanwhile the family has had the most protection, which is what insurance is for.

For young men with families, and without private means, whole life or forty-year endowment is probably best.

ANNUITIES

This is a subject that people need to know more about. It is a practical method of old-age pensions. Annuities are just the opposite of life-insurance. They protect you against living too long instead of too short a time. They protect against outliving one's income or earning capacity.

Although annuities are just the opposite of life-insurance they are sold by life-insurance companies and are based on the same scientific principles. Usually a person deposits say one thousand dollars or five thousand dollars or any other lump sum, with an insurance company and then the company guarantees a fixed income as long as the annuitant lives. The older a person is the larger the income. A man of sixty will get perhaps nine per cent. on his money as long as he lives.

Usually the insurance company keeps what remains of the sum paid in if an annuitant dies soon. That is the chance the old person takes.

But by paying a little more the company undertakes to refund to the heirs such moneys as have not been expended. Of course if a person lives to be unusually old then he or she wins and the insurance company loses. Annuities are really best suited for old persons in good health who have no dependents or heirs. For such they are the best investment.

It is an interesting fact that annuitants as a class live longer than other persons, partly because only those who believe themselves to be healthy buy annuities, and partly because they are generally purchased by persons leading quiet and retired lives. It has been stated that the expectation of life for men of the age of fifty generally is twenty and eight-hundredth years, whereas for female annuitants it is twenty-four and two-tenths. Thus annuity rates for women are always slightly higher than for men, because they live longer.

Just what can be done with annuities is best shown by a letter which I once received from an inquirer. This gentleman is sixty years old and his wife is fifty, and he wants to provide for her old age in case she survives him. Now, the basis on which annuity rates are figured is much the same as that upon which life-insur-

ance is calculated, that is, a mortality table, and the compound interest principle, three or three and one-half per cent. being the rate of interest allowed. The inquirer says this is too low a rate of interest, because he has investments which yield eight per cent., and he believes the company merely takes one's money in trust, to pay back in annual instalments, and "them betting on a sure thing."

To answer these objections in full would require a discussion of the entire theory of life-insurance; but suffice it to say that the chief factor in both insurance and annuities is safety, not a profitable investment. Of course, the insurance company is *not* betting on a sure thing. The man of fifty-five who pays one thousand dollars for a life income of seventy-three dollars, or the man of sixty who pays one thousand dollars for a life income of eighty-five dollars, may live to be eighty-five or ninety years old, in which case the life-insurance company loses most decidedly. Figure it for yourself. The company only bets on a sure thing in the average, not on the individual.

But, granting that a man of sixty feels that eighty-five dollars a year is too little for the rest of his life in return for a lump payment of one

thousand dollars, what else can he do? He could have bought what is known as a deferred annuity, if he had thought of this subject twenty years ago. That is, a man of forty, in return for a lump sum of five thousand nine hundred and nine-one dollars and sixty cents can buy an annuity beginning at the age of sixty to pay him one hundred dollars a month from then on as long as he lives. But if he dies between forty and sixty no return will be made.

However, my inquirer did not think of doing this when he was forty. What else can he do now? If he has no children or relatives to whom he desires to leave something, and merely wishes to protect his wife in case she survives him, he can buy a survivorship annuity, a form largely written in England, but less well known here, although some companies write it. In this case he begins at the age of sixty to pay the company eight hundred and twenty-seven dollars and twenty-five cents a year. This sum he pays as long as he lives. Should his wife die before him there would be no return to any one, but if she survives him she will receive from the time of his death one hundred dollars a month as long as she lives.

Another practical form of survivorship an-

nuity is that which costs little and enables a young man to protect his mother or other relatives. For example, a man of twenty-five years of age for thirteen dollars and twenty-one cents a year can provide an income of one hundred dollars a year for his mother of fifty-five, beginning at his death and lasting as long as she shall live. Should the young man survive his mother he receives no return for his investment, but there are many cases where, if a young man knew he could absolutely protect his mother for such a small sum of money, he would be glad to make the investment.

Another method, and perhaps one of the best, would be for the man to take out an ordinary or whole life-insurance policy with his wife as beneficiary, the payments to be made to her, not in a lump sum when he dies, but in annual instalments for a fixed number of years certain, say from ten to twenty, and then to be continued during the remaining lifetime of the beneficiary. This is a form of insurance being more and more employed.

Either the cash refund annuity (or straight life annuity where there are no heirs), or the ordinary insurance policy payable to the beneficiary in instalments instead of in a lump sum,

is the surest provider against poverty in old age. The annuity should be taken out when one is old but vigorous, and insurance when one is young or middle-aged. Few indeed are the men or women who do not need one or the other form of old-age protection.

CHAPTER XII

OWNING A HOME

BUYING and owning a home is by no means solely a financial proposition. It is a business affair like being married, having children or getting an education. A home that you can call your own is a rock-bottom investment. Its interest return is more than the tangible yield in dollars and cents. It produces what the economists call "psychic income," that is, greater comfort, stronger family ties, all-around deeper satisfaction, and a fuller enjoyment of life.

Don't always be paying rent to some one else. Receive interest instead of paying it. Become independent and own the roof over your head. Every man's house is his castle. To own the house one lives in gives a feeling of security, independence and permanence that is worth almost any amount of sacrifice.

The great advantage of owning a home is that every improvement you make adds to the

value of the property. If you have a wife and children you are making the best possible provision for them, and you will feel like a real citizen, because every important improvement in the neighborhood will add to the value of the home. A house owner studies civic problems; he wants to know "who's who" in municipal affairs, as he pays taxes directly out of his pocket, and thus local government is brought closer to him than in the indirect way of supporting it by paying rent.

Basic as it is, the buying of a home is no simple matter. The mere statement of the problem calls to mind visions of real-estate swindles, land fakes, intricate contracts, and other nightmares—enough to bewilder the average investor and frighten him back to his flat or rented house.

Ownership of a home is an ideal to which nearly every man and woman aspires, no matter what their station in life may be. "We have always wanted to own a home," writes one woman, "but have never felt we could afford it. How can we raise the money?"

Many fear to imperil the family fortunes in an experiment which may fail. Inexperience and ignorance concerning real-estate methods

prevent many from ever trying to make the experiment. Many answer the question, "Shall we own a home, or pay rent?" by keeping on with the rent because they fear not being able to renew the mortgage when it falls due, or because of a suspicion that they are paying more for a house than it is worth.

But as a matter of fact the problem is not so confusing as it seems. It has all been analyzed and dissected and classified like any other problem, and thus we can get some order out of chaos. Experts who have studied the subject agree that there are about seven more or less distinct methods of financing the purchase of a home. The classification of C. M. Keys, formerly of the *Wall Street Journal*, made for *The Ladies' Home Journal* is perhaps the best:

"Purchase outright for cash.

"Half paid in cash and the remainder running on first mortgage.

"Twenty-five per cent. cash, fifty per cent. first mortgage and twenty-five per cent. second mortgage.

"Twenty per cent. cash, eighty per cent. building and loan association mortgage.

"Ten to fifteen per cent. cash and the remainder in monthly instalments.

"Home building corporation.

"Personal credit from friends, associates, life-insurance policies, etc."

It may be said at the outset that no plan of buying a house merits serious consideration that does not contemplate the payment of at least twenty per cent. cash down by the buyer. Indeed this is a minimum. Possibly one or two semi-philanthropic home building organizations, of which there are a number throughout the country, accept less than this amount, although Thrift, one of the best known of these organizations, in Brooklyn, New York, will not lend more than eighty per cent. Certainly, in dealing with any lender who is in business for a profit, the home buyer is foolish, except in very special cases, to purchase a house unless he can pay at least twenty per cent. cash down.

At the start we may eliminate Numbers five, six and seven from our list. They are rarely wise methods of doing business. As a general thing be suspicious of the instalment, or contract plan, which calls for an initial deposit of, say, four hundred dollars on a four thousand dollar house, and forty dollars a month payment.

Several development companies have used this method fairly and honestly, and some even successfully. But these instances are more in the nature of exceptions. Look with double care upon an offer which is couched in terms like this: "We will build your home for a small initial payment and you pay the rest in monthly instalments—just like rent."

Of course if you have enough money to buy a home outright for cash there is no financial problem to be faced and you don't need to read this chapter. It is by no means wholly an advantage to pay cash for a home and have it free from debt. By leaving a small first mortgage on your house you can use the money to better advantage elsewhere, provided you need it in business and know how to invest it safely. A small first mortgage on a good house owned by a responsible person favorably known in the the community, can usually be placed, at least in the older sections of the country, at five per cent. Moreover, a house is almost always easier to sell if it has a small mortgage upon it. By small, I mean fifty per cent. or less of the actual value.

If you have enough money to pay cash for half your home you will find plenty of small,

local insurance companies, savings-banks, trust companies, estates and individuals, together with an army of real-estate agents and lawyers acting as go-betweens, who are ready to lend at five or six per cent.—at least in the eastern and middle states—on half the value of a home. This is especially true in the neighborhood of a town or fair-sized village.

The main factor in borrowing money on mortgage is not, as is commonly believed, the rate of interest, but the permanence of the loan. The man who is building a home half on cash and half on money borrowed by a mortgage is safe *only in so far as he is sure that he will not suddenly, and without warning, be forced to pay off the mortgage or a large part of it, on penalty of losing his property.* The danger of a mortgage being "called," together with the consequent danger of foreclosure, is a very real one, and home-buyers should take every precaution to guard against it.

This peril of imminent foreclosure is particularly great in communities where it is customary to have short-term mortgages, running for one or two years, *without the assurance by the lender of renewal upon maturity.* The home-buyer should arrange, if possible, to borrow

from a lender who will consent to the mortgage being paid back in instalments. It is the only safe way. There is hardly a community where some such arrangement can not be made in one form or another. It is not only good business for the borrower, but it is far safer for the lender, i. e., the owner of the mortgage. If you buy a home and arrange to pay back the mortgage in instalments, you must keep your rent money absolutely sacred to those payments. Many people who have paid rent feel as if they had no expenses when they buy a house. They feel rent free, but the money they formerly paid the landlord should now go to the lender on mortgage.

It is especially desirable that second mortgages should be paid off in instalments. They rarely are renewable from year to year as so many first mortgages are. They are much harder to sell and they usually bear a higher rate of interest. It is not safe to buy a house or build a house with two mortgages upon it unless the purchaser is certain to have funds in hand to pay off the second mortgage promptly and rapidly.

There are any number of lenders on home mortgages. In many towns and small cities

there are the companies that guarantee titles and deal in home mortgages, there are trust companies, occasionally small banks, and the smaller local fire and casualty insurance companies as well as savings-banks, although in large cities it would hardly be worth while for the home-buyer to approach one of these institutions. If possible, it is better to borrow from an institution than from an individual, although thousands of private individuals lend money for home buying and building purposes. It is also a favorite form of investment for the funds of estates, and these are perhaps more desirable lenders from the home-owner's point of view than individuals are.

Institutions to a considerable degree, and estates also are less likely to demand the sudden payment of a mortgage than is an individual lender.

Perhaps the most common way of raising money to buy a home is to borrow it from the real-estate firm from which the house is bought or from the lawyer who does the legal work. These men have free access to officers of lending institutions, or themselves often represent estates with money to lend on mortgage. It is all right to borrow in this way provided the

real-estate agent or lawyer has a good reputation and does not advertise extensively and sensationally his ability to get money *cheap* for home-buyers. I think in many cases the home-buyer would be wise to try to make the acquaintance of an official in some small savings-bank or insurance company rather than dealing with middlemen.

There are a great many semi-philanthropic organizations which lend to home-buyers. Find out if there is one in your town. It is not charity, but the effort of far-sighted citizens to increase the number of home-owners and thus improve the community. These organizations do not lend money more cheaply than others. They almost always charge six per cent. But they protect the householder in case of illness. They do not call his mortgage, but invariably arrange for easy and fixed instalments.

There is one other excellent method of buying a home, through the building and loan. These are called "savings and loan" in New York, "cooperative banks" in Massachusetts, "homestead organizations" in Louisiana, and "building and loan" in other states. They have reached their highest point of development in the city of Philadelphia.

In 1914, there were six thousand four hundred and twenty-nine local building and loan associations in this country, with total assets of one billion two hundred and forty-eight million four hundred and seventy-nine thousand one hundred and thirty-nine dollars. In 1915, these sums were considerably larger. One does not hear much about the building and loan associations because they are organizations of debtors—men striving by cooperative means to pay off the mortgages on their little homes; and the debtor is never a loud talker or boaster.

The building and loan society is most useful when the would-be house-owner is able to invest immediately only from one-fifth to one-third of the total purchase price, which is usually about the value of the lot, or a little less.

In order to borrow from a building and loan association you become a member, which means taking out a certain amount of stock. This stock is paid for in monthly instalments, which amount is enough to meet also the six per cent. interest on the loan you have made from the association and gradually to pay off the loan itself. The profits on the stock and the length of time in which it takes to pay for the stock all depend on how many loans the society makes

and how well they turn out. This uncertainty is the one bad feature about the building and loan.

The vital principle of this purely cooperative idea is that the loans shall be made only to persons living in or near the community, so that the officers are able to estimate accurately without difficulty or expense the value of the property. In small communities, men know pretty well the value of the properties in their neighborhood and the standing of their owners. The officers usually serve without pay, and if they are reasonable in their caution, this type of cooperative enterprise is practically always a success.

The advantage of the building and loan association to the borrower is that, in addition to sharing in the profits, he pays off his debt in regular instalments. Where he borrows with no such provision for paying off the debt, the main point, of course, is to have some assurance that the lender will extend; and the lender most willing to extend is naturally the one who is in a position to ascertain the borrower's good faith and standing without going to trouble or expense.

The strength of your loan, of course, depends

on the strength of the building and loan association. In trying to determine this strength, ask yourself questions along this line about the institution you are considering: Is it in good standing in the community? Does it lend money far from home? Is it careful about making loans even in its own community? Does it keep up careful inspections from month to month of the property on which it lends money? Does it continually make a great many loans to any one group of contractors, or real-estate operators? (If so steer clear of it.) Does it make a practise of making loans on every house that is erected in any boom suburban development? (If it does, leave it alone.)

Here is a little instance showing how the building and loan association works: John Smith and his wife live in a fairly prosperous middle-sized city. They have been married several years and have accumulated, by dint of hard work, the sum of two thousand eight hundred dollars. They buy a lot for one thousand three hundred dollars. Then they decide to wait with the one thousand five hundred dollars remaining, and work some more until they get enough to build. They make up their minds to wait—until some one casually reminds them

they can go right ahead by working through the building and loan association.

The house they planned for together with the lot costs four thousand four hundred dollars. They put in their one thousand five hundred dollars, and learned that the building and loan association was willing to lend them the remaining three thousand dollars.

Here is the way Jones got the loan of three thousand dollars. He became a member of the association, and bought thirty shares of stock in the association, par value one hundred dollars each. Jones agreed to pay for these shares in monthly instalments of thirty dollars. When his house was ready for occupancy, an officer of the association examined the property, appraised the house and lot together at about four thousand five hundred dollars, and after an examination by the association's lawyer, found the title clear and valid.

At the next monthly meeting of the association, Jones got his loan of three thousand dollars, which he agreed to pay back, including interest at six per cent. at the rate of thirty dollars a month. The association secretary explained to Jones:

"Of course, you realize that your monthly

payments of thirty dollars, which you have already begun, are not really a direct paying off of the loan, but simply the continuous installment payments for the thirty shares of stock you bought. Therefore, we can't tell exactly how long it will take to pay off the loan. In the course of time you will receive the accumulated profits to which your thirty shares entitle you. Therefore we can not tell exactly how long it will take you to pay out the loan—anywhere between seven and twelve years, according to whether our profits are large or small. As soon as your monthly payments and your accumulated profits on the shares of stock equal three thousand dollars, we cancel your loan and you have your home free and clear."

Some one may say, "Why go through all this complicated machinery and pay extra for the maintenance of such an organization?" The answer is that the expenses of conducting the societies are usually small. The latest figures I have available, those for 1913, show that the expenses of conducting the local savings and loan organizations of the state of New York were about seventy-four cents for each one hundred of invested capital. Furthermore, the dividend yield on the stock of the building and loan

association is nothing to sneer at, for (continuing the same figures) the average dividend declared in that year upon the capital was five and six-tenths per cent.

CHAPTER XIII

DIFFERENT KINDS OF DESIRABLE INVESTMENTS AND THEIR ADVANTAGES

A BANK deposit, life-insurance protection and a home are usually the first investments to be considered by a young man or woman who would get ahead in business or professional life. As they come first in any well-ordered scheme of personal finance, so they have been spoken of first in this book. But there are many other safe and desirable investments, and in this chapter, the relative advantages of the leading groups will be set forth, not in detail, or in technical language, but with all the incisiveness and practical bearing at the writer's command.

There is *only one* drawback to a bank deposit made in the usual way—and mark this statement well, for you will probably find as your experience grows that such is true of no other form of investment. It is the low rate of interest return. That may seem like a very great disadvantage, indeed. But there are times

when it amounts to nothing. In fact, when the investment is intended only to be temporary it invariably amounts to nothing.

The reasons why bank deposits pay so little are two. First, because the bank is never able to tell for how long it may have command over your money. Perhaps it may be for only a few days or a few weeks. If you lend money on a mortgage or purchase a bond, the person who borrows from you obtains the money for anywhere from one to a hundred years or more. He usually knows just how long he can use it—an advantage for which he is willing to pay a higher interest rate. If you buy stock or real estate, the other person gets your money forever, practically. He does not have to make any provision for its repayment. Therefore, he can afford to promise a still higher return. You yourself can sell to another buyer and in that way get back your money—or at least a part of it—but the medium of investment, the investment itself, does not automatically repay itself like the bank deposit. Obviously, the second reason why the bank deposit pays so little is because, in the case of a checking account, so many other conveniences go with it.

I have emphasized this fact of there being

only one great disadvantage to a bank deposit because so many people lose in ill-advised ventures money that would be saved from loss and would earn more in the end if kept in the savings-bank, or even in the commercial bank. And in this connection, I have referred particularly to the bank deposit *made in the usual way*. There is a form of such investment on which the interest rate is oftentimes as high as on bonds or mortgages; namely, the time certificate of deposit. Such certificates are issued extensively by banks in western and southern communities to attract money to be used for community development. Some are merely the promises of the issuing banks to repay the amounts of the deposits after a specified time. Others are secured by the deposits of securities —usually in the form of local farm or city mortgages. Both kinds are safe and desirable investments, if issued by banks that are carefully managed and properly supervised.

Closely akin to the ordinary savings-bank account, and to the time certificate of deposits, is a form of investment represented by the savings shares issued by building and loan associations which are described in another chapter of this book. It is sufficient to point out here that the

usefulness of these associations is not all on the side of those who become members with a view to borrowing money to buy or build homes. Indeed, if they did not afford to the man able to save only by fives and tens a safe means of investing for income, they would fail in their purpose of promoting home ownership.

But it is necessary to emphasize that as a rule, these associations or societies offer safety on their savings shares only if they are organized as local mutual or semi-philanthropic institutions rather than as ordinary business corporations. The latter class of associations are frequently referred to as "nationals." They are conducted primarily for the personal profit of small groups of stockholders and officers, and their practise is to lend money in remote places on risks to which they can not give adequate attention. They are not infrequently managed as purely speculative enterprises.

There are many people who would be better off if they employed only these forms of what may be called "indirect" investment. No man or woman ought to undertake to acquire *direct* ownership of securities without at least some study of the fundamental principles involved in the selection of the right kind at the right

time. No matter how small the amount of your surplus funds, you can put as much time and effort as you will into the study of these principles and be sure that none of it is wasted.

A good place to begin a study of the various types of securities is with the mortgage, because that is a basic type. First mortgages, or liens, upon real estate were well recognized investments back in the dim early ages of mankind. But despite its antiquity the real-estate mortgage grows more important every day.

In simple terms a mortgage may be defined as a deed or instrument, conveying property to a creditor as security for a debt, the deed being valueless, provided the debt is paid off as agreed. The two main classes of real-estate mortgages consist of those which are first liens on productive farm or horticultural land, and those which are first liens on improved city property. The latter class in turn consists principally of liens on office buildings, apartment houses and other high-priced city property, greatly improved and highly developed.

In each of the two main classes the quality of the individual mortgage as an investment depends upon the conservatism of the valuation placed upon the property and upon the percent-

age which the mortgage bears to that valuation. The safe rule is that a mortgage should not be drawn for more than thirty to fifty or sixty per cent. of the actual value of the property. And actual value does not necessarily mean purchase price. The value of farm land, for instance, can often be determined only by its productivity, and to determine that accurately one must be informed about such things as soil and climatic conditions, proximity to markets, etc., to say nothing of efficiency of management. Or, the value of improved city property can be determined only by its rent-producing capacity which depends upon a multitude of factors requiring the most expert analysis.

It requires no technical knowledge of either agriculture or finance to perceive that the farm is the basis of wealth, its most essential and stable component part. Even if the census figures did not prove this statement with emphasis and detail, the most cursory reading of newspapers since the war began would establish it. The farm is the soundest of all property. It is the basic element in support of life; demand for its products always increases. Even in war-time foodstuffs, forage crops and meats are more needed than ever. Farms are the

foundation of the whole material structure of national life.

This is the fact which underlies the excellent investment record of the farm mortgage. Except for a few years in the late seventies and early eighties, when the western country was very new and thinly settled, and again in the early nineties when western land was "boomed" in a dangerous way, there has been an unbroken record of prompt payment of principal and interest on farm mortgages.

It is no longer true, as it was many years ago, that the investor finds a farm mortgage annoying and troublesome, even granting its safety. There are to-day scores of strong and efficient mortgage houses to which one may turn with absolute confidence in making such investments, and, of course, it hardly need be said that all details, legal and other, are looked after by the dealer. He collects and forwards interest, takes care of taxes and insurance and looks after his clients' welfare to the full. The rate of interest which he offers when he sells a mortgage is strictly *net;* there are no reductions or commissions to the customer, no incidental expenses.

There are numbers of dealers who have been

in business many years who can boast of no loss whatever having been sustained by their clients, and others through whom the loss has been negligibly small. It is quite the common thing to find firms with records of twenty years and more and no losses. It is doubtful if this is true in any other investment field. It is accounted for largely by the fact that the relatively small units in which they deal (the average size of the farm mortgage is under five thousand dollars) enable the established houses to make a practise of relieving their clients of such mortgages as may happen to default, giving entirely new investments and assuming themselves the danger of ultimate loss on the defaulted securities. There are obvious difficulties in the way of following such a practise uniformly even in the case of city mortgages which seldom represent liens less than fifty or a hundred thousand dollars. And it is entirely out of the question in the case of large issues of securities running into the millions and often extremely complex in form made by railroad, industrial and public service corporations.

Outside the big investing institutions like the savings-banks and insurance companies, city mortgages are rarely held in their entirety, as

farm mortgages are held, by individual investors. Both classes of mortgages are found on deposit as security under bond issues in denominations frequently as low as one hundred dollars, but city mortgages are more commonly handled in that way. In that form they are known as "divided liens." Many banking houses issue such bonds in *serial form*, which means that there is lent in the beginning, say, fifty per cent. of the value of the property, and each year the owner is compelled to pay off a small part of the lien, so that at the end of the term of the mortgage (averaging about ten years) there will be outstanding an amount equal to only about thirty per cent. of the value of the property when it was new, or forty per cent. of the value at the final maturity of the lien. In this way, depreciation, the inevitable wear and tear, is taken care of.

Where the lien is thus paid off in part, year by year, out of the actual earnings of the property, the margin of security of course, becomes larger and larger. It would be exceedingly unlikely that the mortgager would default in any of his earlier payments, because of their comparatively small amount. It would likewise be unlikely that he would default on his final pay-

ment; for it would be easy to refund the loan at the final maturity because of the great reduction that had been effected in it.

Moreover, even if he did default, the comparatively small size of the loan could be very easily taken care of in foreclosure.

Serial maturities make it easier, in other words, for the borrower to pay his indebtedness, and any device that helps the borrower in paying off the loan, of course, increases the soundness of the loan. Moreover, it saves interest charges to the borrower. It has a further advantage in giving investors a wide range of choice of maturities. Investors purchase successive maturities of various issues so as to have a portion of their principal coming due each year. In this way also the investor is practically always able to secure funds if he needs them, whereas if he owned stocks or bonds he might have to sell them at a sacrifice, even though their intrinsic value were far greater than their market value.

Few loans are made by reputable firms except on new buildings; and, as the loans always run for short periods, the investor is asked to buy only into mortgages on new buildings. New buildings, or at least new apartment

houses, are usually the easiest to rent because they are the most attractive.

In the class of city mortgages there is special division of guaranteed securities, which make a fine form of investment for income, provided the guaranteeing institutions are of known financial strength. Mortgages which have such guarantees endorsed upon them are certain to have passed a rigid examination and to be characterized by a small element of risk. But they usually command a high price and do not, therefore, yield so much income as similar mortgages that are not guaranteed.

Mortgages and bonds have many points in common. Bitter controversy ever rages as to which are the better investments. The distinguishing advantages of the mortgage over the bond seems to be the higher rate of interest that it pays. In cities such as Chicago, Cleveland and Pittsburgh, bonds secured by first mortgages on apartment houses and stores may be purchased from strong reliable firms to return from five and a half to six per cent. From successful dealers in Chicago, Minneapolis and many other places in the West and South, direct first mortgages on farms may be purchased in amounts of from two hundred and

fifty dollars up to five thousand dollars and more, to yield five and a half to six per cent. Even higher rates may be had, but in the best selected sections a six per cent. net return to the owner of the mortgage is considered conservative and reasonable.

The higher average rate of interest on mortgages may sometimes be due to inferior investment quality, or it may more probably be accounted for by the greater difficulty of disposing of a mortgage once it has been bought. Having no public market in which mortgages are sold, the investor must fall back on the firm from which he made the purchase. Many firms dealing in both city and farm mortgages boast a record almost unfailing of having bought back their mortgages at par with a nominal handling charge of one per cent.

Mortgages are but little if any affected by such things as politics, trust legislation, tariff reductions, government control, regulation and ownership and other similar influences. They are preeminently a short-term investment. Of course, there is never any increase in the market value of the principal sum of a mortgage, as there often is in the case of bonds, but on the other hand, as with all short-term investments,

there is no decrease in price unless the value of the property itself becomes seriously impaired.

It is true that at times of depression especially in city real estate, the selling price of numerous pieces of property falls to the mortgage loan figures, but the investment record of mortgages has not suffered noticeably at such times. This is due to the elementary fact that it is comparatively easy to estimate roughly what half the value of the underlying security is. Even a slight error in appraisal makes but little difference because the margin is so large. Even an unsuccessful management does not destroy the investment, because while poor management does destroy value in the case of either city or farm property, it can hardly destroy half the value in a short space of time, especially if the property is well located and has all the other essential characteristics of the basis of a good loan.

A great many substitutes have been made and offered to the public to take the place of the kind of mortgages so widely used by conservative investors as safe and profitable means of employing surplus funds for income. These substitutes range all the way from second or third mortgages, or bonds secured by such

mortgages, to construction bonds and debentures that are not secured by any mortgage at all. The latter are an extremely common type. They are sometimes referred to as "equity bonds." They are mere promises to pay, and are seldom if ever any better than the credit of the company which signs them. Depending upon the ability of the issuing companies to make big profits, such debentures as a rule offer nothing more than participation in the real-estate business and are, therefore, rarely of genuine investment merit.

CHAPTER XIV

DIFFERENT KINDS OF DESIRABLE INVESTMENTS AND THEIR ADVANTAGES

(Continued)

IN THE previous chapter it has been suggested that bonds, like direct mortgages, represent liens, which means a claim, or hold, on property. This is an important point, because beyond question the chief requisite of a good investment is safety, or the certainty that the principal sum will be returned when agreed upon or when demanded, or that it can be converted into money. And, as the leading reference book on bonds, *The Principles of Bond Investment*, by Laurence Chamberlain, says, "There is one and only one word in the language to designate the employment of funds in accordance with these requirements, and that is the word 'Lien.'" Bonds and mortgages are, therefore, the securities that are best suited to the needs of the inexperienced investor.

A bond is in essence a lien as distinguished from a share of ownership. Any one familiar with the financial markets might name offhand well-known stocks that are as safe, for all practical purposes, as are three-fourths, or perhaps ninety per cent., of all the bonds in existence. But two points must be noted:

In any given concern bonds are safer than stocks. If the thousands of investors who bought New Haven stock had owned bonds in the same company, they would not be going without income at the present time.

No matter how sound a stock may be, it represents the risk-taking, profit-taking part of an enterprise. It is the buffer between the creditor and loss. Interest can not be stopped on bonds (except income bonds, a relatively small class) without making actual trouble for the corporation. But the directors have a perfect right not to pay dividends.

As its name implies, a bond is an obligation, the same as a promissory note. The owner of a bond lends money to some one else to conduct business with. He is a creditor. But a bond should be, and often is, more than a mere loan. It is a secured loan. We speak of a bond being secured by mortgage, that is, by a pledge of the

property in return for the money lent. You and I lend money to a railroad. In return, the property of the railroad is actually pledged to us, the pledge becoming void if the money is paid back to us as agreed. Such a bond is secured. We have a lien upon the railroad, a legal claim upon it, which we can enforce just as long as law exists.

Now, it is evident that a few persons, unless very wealthy, can not lend enough to carry on a large business enterprise. So the custom has grown up of lending great sums on one mortgage, which is taken by a third person, or trustee, in the interest of the many small lenders. Then the mortgage is split up, as it were, and portions sold as bonds to many investors.

In the long run the only safe bond is the one that has large earnings, relatively speaking, behind it. The owners of any issue of bonds directly secured by a mortgage can take over the property if the corporation does not keep faith with them. But what good is the property to them unless it earns something?

But, while the worth of a bond always analyzes back into earnings, it does not follow that the bonds of any company with large earnings make sound investments. A pill manufac-

turer might borrow a million dollars and earn the interest on the bond issue five times over, without the bonds being much good, whereas a telephone company might earn its bond interest only two or three times over and have its obligations considered of the highest grade. Companies whose earnings are fairly stable and regular, like steam railroads, street railways and electric power and gas plants—all those whose property can be and preferably must be employed for public necessities, irrespective of changes in public tastes, inventions, customs, tariffs and so on—are the ones that should issue bonds. These are the underlying general principles that must govern the investment in corporation bonds.

In this connection, it is well to note that the laws of the most careful states forbid public and private trustees to put the money they control into industrial bonds; whereas railroad bonds are pretty generally admitted, and in many cases those of the public service corporations. Of course, this is not to say that there are no safe industrial bonds. It is merely one way of emphasizing the fact that purchases in that class of investment require care and investigation beyond those in almost any other class.

By "industrial" we mean manufacturing, mining, trading and mercantile. "Public service" includes electric light, power, telephone, gas and traction companies.

There are almost innumerable types and grades of corporation bonds. The name in itself may be of little, if any significance. From what has already been said, it follows that a stock whose dividend is secured by earnings of the most ample description is better than a poorly secured bond. There are exceptions to all rules. For sheer safety, the preferred stocks of railroads like the Union Pacific and Chicago and Northwestern companies for example, are indescribably better than thousands of bonds. But well secured bonds are undoubtedly safer as a class than well secured stocks. There is always a moral and even a legal obligation to pay bond interest which does not hold even with the best of stocks.

But every investor ought to know in a general way at least the meaning of the more familiar names that are used to designate the different types of bonds. Such knowledge is especially necessary in undertaking to determine the relative desirability of the different issues of any given corporation. A good working list of

these would include first, second, third mortgage, etc.; general mortgage, refunding mortgage, equipment, terminal, collateral trust, adjustment, convertible and debenture. The terms, "first mortgage," etc. are of course, self-explanatory.

General mortgage bonds are those secured by a mortgage on a corporation's property whose various component parts or some of them have previously been mortgaged to secure other bonds taking prior rank. Refunding bonds are those which are authorized as an issue to take up and pay off other bonds which are outstanding. They are commonly, though not always, secured by a general mortgage.

Equipment bonds are those issued specifically, in the case of steam railroads, to pay for cars, locomotives, etc., in the case of street railways, to pay for cars, motors, etc., and in the case of industrial corporations to pay for machinery. Such bonds are chattel mortgages, being direct liens on the equipment paid for out of the proceeds of their sale. They are almost invariably in serial form and incidentally, they have a unique investment record, particularly the railroad equipment issues which have been paid, principal and interest through all degrees of

financial adversity in order that the issuing companies might retain possession of the equipment without which they could not operate.

Terminal bonds are as the name implies those secured by mortgage on the terminal properties of steam railroads or interurban traction companies, usually located at important centers. Such bonds almost always have large inherent value, purely as real-estate investments, irrespective of the financial strength of the issuing companies, although the latter is, of course, an important consideration. Frequently, as in the case of union stations, the ownership of the real estate and its improvements is vested in separate companies and the bonds are guaranteed jointly and severally by all the roads using the terminals.

Collateral trust bonds are those secured by the deposit of other securities, either bonds or stocks or both. Not infrequently they are indirect liens on valuable property, but as a rule the credit of the issuing corporation is a very large element in their desirability as investments.

Again, adjustment bonds, as implied in the name, are those which are issued in connection with the adjustment of a corporation's debt,

usually at the end of a receivership. This name is commonly used as a sort of disguise for income bonds on which the issuing corporation does not obligate itself to pay interest unless its directors deem earnings sufficiently large to do so prudently.

Convertible bonds are as a rule unsecured promises to pay, giving their holders the privilege, exercisable at their option, of converting the bonds at a certain fixed ratio and within a specified time into some other form of security, usually the capital stock of the issuing corporation. On account of the fact that such bonds are ordinarily bound by their very nature to share in the fortunes of some stock, they can seldom be recommended as strictly conservative investments.

Corporation debentures rank as junior bonds, and in many cases are practically the equivalent of a preferred stock without voting power. Their safety depends largely upon the credit and integrity of the corporations which issue them, because they are not secured by mortgage on specified property of any kind.

Another class of corporation securities in connection with which, as in the case of bonds, there is a moral and legal obligation to pay in-

terest, comprises short-term notes. This class presents a wide diversity of investment quality. Notes are sometimes secured by direct mortgages on property, and in that form they may possess the fundamental characteristics of good bonds. More frequently, however, they are issued either as unsecured obligations or against the deposit of miscellaneous collateral which means property deposited to secure the debt. As a rule they bear higher rates of interest due to the fact that they are an emergency financial measure, owing their existence to conditions, either in the general investment market, or in the affairs of the issuing companies which render impossible the sale of securities of the more permanent forms on favorable terms. It is ordinarily difficult for any but highly experienced investors to pick the good investments from the bad and the indifferent in this group of securities.

I have departed from the usual order of discussion of the subject of bond investment with the idea of emphasizing the complexities involved in the selection of desirable corporation bonds. Government, state and municipal bonds, taken as a group, are by common consent entitled to first consideration from the point of

view of intrinsic safety. Nor do they present the great diversity of form that is presented by the group of corporation bonds. They are all simply promises to pay based on the faith and credit of the governments, states or municipalities which issue them. Like the bonds of railroads, public service corporations and industrials, they are evidences of debt given in exchange for money borrowed for specific purposes, and their payment, principal and interest, is provided for out of taxes, either general or special.

Scarcely without exception, the bonds of the United States government are not suitable for private investment, simply because they are issued under conditions which make them yield too small an income. From the point of view of yield, state bonds are in about the same class as government bonds and for the most part are bought by institutions like the banks and insurance companies, or for special purposes by individuals having large sums of money to employ.

For all practical purposes, municipal bonds—those issued by cities, towns, counties, school districts, etc.—are, as a class, as safe as government or state bonds. Indeed, some authori-

ties rank them ahead of state obligations—that is, if they are of the type known as "direct" municipals, as distinguished from the type known as "special assessment" or "improvement" bonds, which with some exceptions depend for the safety of their principal and interest upon the tax-paying ability of property owners in the particular districts for whose improvement they are issued, rather than upon the general taxing power of entire municipalities. The advantages of municipal bonds, moreover, are their *extraordinary safety* and good average yield. The large issues of cities like New York, Boston, Philadelphia and Chicago, being so well known and enjoying such ready markets, yield little, if any, more than four per cent. But the smaller issues of less important cities and towns, as well as those of counties, school districts, etc., often yield fully five per cent. Another advantage possessed by this group of bonds which is frequently of importance for the individual investor to consider is that they are as a whole exempted from the federal income tax, and as a rule from the personal property tax at least in the state of origin.

In coming to the consideration of corporation shares or stocks, as investments, I want to re-

peat a statement made in setting forth the nature of a bond; namely, that no matter how sound stock may be, it represents the risk-taking, profit-taking part of an enterprise—that it is the buffer between the creditor and loss. Of course, if no one bought stock—if there were no risk-takers, no speculators—there could be and would be no bonds. Bonds, in fact, are safe only when there is a fairly large stock issue, representing actual cash invested either by subscribers or saved from surplus earnings. But it may as well be understood at the outset that inexperienced investors should leave stocks to persons of more experience who can afford to accept less security for the sake of a greater possible income.

The reason for this is that the money which a stockholder invests is subject to all of the ups and downs of business. The stockholder of a corporation is a partner in every sense of the word. Moreover, as has been pointed out, corporations do not have to make provisions for repaying the money they get by the sale of shares, although they sometimes leave the way open to do so at the option of the directors. As long as a corporation continues in business, therefore, the only way for a stockholder to get

his money back is to sell his shares to some other buyer. If, on the other hand, the corporation discontinues business for any reason, the stockholders are entitled to receive only their *pro rata* share of whatever assets are left after the claims of the creditors (including the bondholders, of course) have been satisfied. So that the primary considerations in stock investment, are, as a rule, marketability and the interest return. From what has been said, it is clear that stocks, as a class, yield more than bonds.

There are but two really distinctive types of stocks; namely, preferred and common. Preferred stocks, which take precedence in respect to their claims upon assets, with relatively few exceptions, almost always represent income at a fixed rate; whereas common stocks represent speculative income which may vary from year to year as the earnings of the issuing corporations rise and fall with the inevitable changes in general trade and business conditions. This is important to bear in mind in considering the question of marketability, although in actual practise, stocks both preferred and common, listed and unlisted, fluctuate in market price for many other reasons than those connected with the earnings of the issuing corporations.

As for the different classes of stocks, it may be said that in general the railroad and public utility issues show greater stability than industrial issues, just as in the case of bonds. Mining and oil stocks are large and important classes, which it is safe to say, however, ought to be left to veteran investors. These industries, as such, are, of course, perfectly legitimate, but in spite of the fact that in numerous respects they have been developed to a point where they take on many of the characteristics of industrial or manufacturing enterprises, they depend for their success upon very many contingencies which serve to make them, at best, highly speculative. And they are still among the favorite industries to be taken up for exploitation by unscrupulous promoters.

There is a double risk in oil and mining ventures in that no one can tell when an oil well or mine will give out, and secondly in the fact that every ton of ore or gallon of oil taken out reduces the value just that much. But there are many companies which have so many actual producing wells or mines that the risk is distributed over a wide area. Moreover the real legitimate mining and oil companies build

up great reserves to protect their stockholders. Any banker can name you a score of such companies, but no human being is able to follow the sad careers of all the scores of thousands of merely projected or half developed companies. They are the graveyards of investors' hopes, the countless "prospects" of mining.

Bank stocks comprise a special class of securities seldom, if ever, to be recommended to the average investor. The large and better established issues of this class, while they may pay dividends at high rates, as a rule sell at prices which reduce the net returns on the investment to exceptionally low rates. Such stocks are usually bought by business men of large resources who find special advantages in the kind of banking connections which partnership interest in such institutions brings to them.

An element of risk peculiar to this class of stocks is in the double liability imposed by law upon holders in the cases of all national banks, and in the majority of cases of state banks. This means that in case of failure or the winding up of a bank's affairs for any reason, if there are not sufficient assets to pay the claims

of the creditors, the stockholders may be assessed up to the par value of their holdings to make up the deficit.

If you are thinking of investing in some stock or bond usually the first thing to do is to look it up in one of the standard reference books. Perhaps the best known books of this class are *Poor's Manual, The Corporation Service* and *Moody's Analyses of Securities.* You will usually find one or all of these books in a bank or broker's office. Go in and look it up yourself before you bother people with questions. Many times you can get all the information you need out of one of these big volumes. If you find enough information describing the character of the company's business, its earnings and its financial condition, the next step is to discover from your bank or some other agency the standing of the people in the company. Although the books I refer to probably contain the names of nearly one hundred thousand different companies, yet there are innumerable concerns so small or so local as not to appear therein. That fact does not necessarily condemn them, but it requires greater caution on your part.

As far as the larger and better known companies are concerned, you can get from almost

any broker a little book known as the *Investor's Pocket Manual*, which gives not only the salient facts about the company, but the range of prices of its stock. The book is entirely reliable. Practically all members of the leading stock exchanges distribute this booklet free to their customers. It is not got out by brokers at all, but by a publishing company which supplies the booklet wholesale to brokers and stamps their names on the cover.

For a conservative reliable judgment upon any given investment, I can not too highly recommend a consultation with one's banker. By that I do not mean with the broker or investment man who has stocks or bonds to sell, but with an official of one's savings-bank, or the ordinary commercial bank or trust company where you keep your checking account. Not only does the official of such a bank possess good judgment and facilities for getting reliable information, but he will treat your case as confidential; you may be sure of that. Thousands of people with bank-accounts fail to take their bankers into their confidence enough. People would save millions of dollars if they consulted their bankers before placing their money in risky ventures.

A great many people write to me and ask for the name of some one book that will tell them all about every stock and bond. There is no such book. Newspapers give lists of stocks and bonds, and a great many persons would find what they want in the newspapers if they would only read them more carefully. The papers in the larger cities, especially in New York, Chicago, Boston and Philadelphia give a great many different kinds of stock quotations and other information of a detailed character.

Look around you a bit. See how rich men invest. Notice the appraisals of big estates, not only for suggestions of what to buy but equally for sharp reminders of what to avoid. Rich men make plenty of mistakes. By running over a score of these lists any sensible person will see what securities to avoid.

If you have no time to study investment subjects, at least take the trouble to inquire what the savings-banks of your state are permitted to place their funds in. In a few sentences you will learn the accumulated financial wisdom of whole legislatures, committees on banking and numerous banking experts who have for years testified before those committees. It does not follow that you must place your funds in exact-

ly the same way the savings-banks do. But you will learn some of the fundamental laws governing the subject. Don't be so foolish as to overlook general, universal experience.

In New York State, which has by far the largest amount of savings deposits, the only legal investments, practically speaking, are first mortgages on real estate for not more than sixty per cent. of the value, government, state and municipal bonds, and first mortgage bonds of steam railroads of a certain size, if dividends of at least four per cent. have been paid for a number of years and no default has taken place on any obligation.

CHAPTER XV

SAFETY AND HIGH INCOME

UNLESS an investment is safe, strong, secure, it is utterly futile for a person to go any further with it. This point should be passed upon competently first of all. Then it is time to consider other things.

Next to safety comes high income and the question of whether it is possible to realize upon one's purchase in case of need. With many people high income is the more important. With others, and especially with business concerns or institutions, which may need large sums of money in a hurry, quick marketability is the prime requisite. But with most individual investors there is a desire for as large an income as is compatible with safety. They want their money to earn as much as possible without impairment of the principal.

Most persons who purchase an occasional bond or mortgage, or a few shares of stock, already have a bank-account, which of course is

the most marketable investment in the world. If they need money for illness or a business emergency it lies ready in the bank, or they may have health and accident insurance to help them out.

Now the question of getting a high return on one's money and still maintain the integrity of that money, is one of the most difficult and complex in the whole realm of finance. There is such a word as anticipation. If a stock pays from forty per cent. to eighty per cent. a year, risk is anticipated in the high return. The principal is being paid back in what superficially appears to be big dividends. This is often the case with mining and oil stocks. But most investors would rather have something a little steadier. They would rather have a lower rate of interest and be fairly sure of getting their principal back as well.

It is one of the oldest and most common sayings in the business world, that the lower the rate of interest, the safer the security, and the higher the rate of interest the more risky. As a big broad generalization this may be true. Certainly it is true in countless instances. But there are many circumstances in which the rule is misapplied. It is by no means an iron-clad

rule of thumb, and if it were applied rigidly by investors generally, the result would be an enormous waste of capital. The best issues of securities do not *always* bear low rates of interest.

The truth is that high income is a sign of insecurity under certain conditions only. Without any further theorizing, let us see under what circumstances a high income may be compatible with safety.

A great amount of capital is sluggish, lazy, almost indifferent; or more strictly speaking its owners are. They do not want to take the trouble of investigating. Now for them there are plenty of safe investments at low rates of interest. It may be laid down as a fundamental truth that more inquiry and investigation are necessary to obtain high income with safety than low income with safety.

General, wide-spread public knowledge concerning the merit of a bond or stock always tends to raise the price and lower the interest return. A concern may be safe actually, but only a few people have yet discovered that fact. Here lies the opportunity for both safety and high income. A bond or stock may be unfamiliar and consequently to be had at a low price.

Often an issue of bonds has not been thoroughly distributed among investors, even in cases where there is no question as to their merit. If bankers have to carry a large amount of bonds, instead of the entire issue being owned by ultimate investors, it is often possible to get them much cheaper than later on when they have been distributed.

In the great financial centers, Boston, New York, Philadelphia, Chicago, and in the older sections generally, capital is plentiful and interest rates are low. Rates are much higher in newer sections, and especially in those sections which are rapidly developing. Not only are certain parts of the West and South away from the great reservoirs of accumulated capital—accumulated ever since the days of the early whaling trade at New Bedford and even the Colonial shipping trade—but they are, as it were, off the route of capital, if I may use such a phrase.

Florida, for example, has many sound industries, and it is possible with a little care and discrimination to obtain eight per cent. on first mortgages in that state. But the great streams of capital have not somehow as yet gone in that direction. Thus Florida industries have to bid

high, for capital, like human beings, goes where the rush is, "follows the crowd."

People in the West and the South have a pretty well fixed idea that a six or seven or even an eight per cent. mortgage in their country may be just as safe as a five per cent. loan in New York. Of course the eastern investor must purchase these high yield mortgages only through dealers who can prove that none, or very few of the mortgages he has selected have ever defaulted. It is also necessary to place money through a dealer who will look after the details of collection, insurance and taxes. It is very expensive to hire a lawyer at long range to collect interest. Five per cent. with certainty is better than eight or nine per cent. if one has to go after it with a sheriff.

In sections of the far West street improvement and assessment bonds are to be had to pay seven per cent. In selecting these the joker to look out for is the danger of financing a boom suburb. If such bonds represent work on business or permanent residence streets of a substantial city, they are perfectly good.

Not only does general knowledge put up prices and thus reduce interest rates, but what might be called an active market for securities

tends to reduce the interest rate. To have a stock or bond listed and actively dealt in on the New York Stock Exchange is pretty sure to raise its price and lower the interest return, simply because everything in this world costs something, and this open public market costs real money.

As a rule, although not always, very large enterprises are able to sell their securities at higher prices than small enterprises. This is because more people know about them and there is therefore a wider market. Such concerns may not be any safer, or even so safe, as smaller enterprises, but the knowledge of such safety as they have is more widespread, and the larger concern is more likely to be listed on the stock exchange.

Generally speaking, there are the bonds of large, well-known companies which are listed on the stock exchange, and bonds of small companies, not listed, but sold by and familiar to investment bankers. The first is called "big stuff," and the other "little stuff." Historically speaking, one class of bond has about as good a record as the other. But the investor should pay less for the little unknown bond than for the big well-known one. If he deals with a

reputable investment banker, he can buy just as safe bonds in the little unknown class as are to be found in the other group, and they will bring him a much higher rate of income. As already suggested, this is especially true of municipal bonds, few of which are listed on any of the exchanges.

Now there are thousands of people who will not have any security unless it is listed on the New York Stock Exchange. They want to see it quoted in the newspaper every day, and if possible, traded in over and over again. Then, too, big institutions, such as banks and large business concerns which invest their cash surplus in securities, must have a quick market to sell upon.

Perhaps more important than any of these considerations is the fact that banks prefer to lend on stock exchange securities. This is not because banks do not recognize the value of other investments, but because the bank has no time to investigate every form of collateral offered to it as security for a loan. A stock or bond frequently quoted on the stock exchange is instantly recognizable. The banker knows immediately and at any moment just what price he can get for it. His business is primarily

lending money and he much prefers to lend upon something the market value of which is always known to him.

For all these reasons there is a tremendous demand for stock exchange securities, and the prices of safe ones are naturally high. But it is not worth while to list stocks and bonds of small concerns upon the stock exchange. Even more absurd would be any attempt to list single mortgages upon the exchange. The only securities available there are those issued in many millions of dollars.

Thus it is clear that to find safe investments at high interest rates one must search for industries, or real-estate mortgages or municipal bonds that come under one or more of these heads: (a) Far away from the great money centers and currents; (b) Conducted on a small scale; (c) Not as yet especially well known; (d) Issued in relatively small amounts; (e) Not listed or actively dealt in on the great stock exchanges.

Perhaps first mortgages on real estate offer the greatest opportunity. Also the bonds of small towns, street improvement bonds and other obligations of the smaller nature supported by taxation. Then, too, there are count-

less securities of the industrial and public utility groups which pay high interest rates because they have not yet become conspicuous on the stock exchange or in the money markets.

I would not have it supposed for a moment that I am criticizing the stock exchange or denying the investment opportunities that exist among its securities. It is the one most important single barometer of business and financial conditions. Without the stock exchange it would be extremely difficult to judge the value of the other types of securities I have mentioned. It is the quickest place to invest, and by far the safest unless one has an investigating type of mind or has plenty of expert advice upon which to rely.

The stock exchange, and other similar markets, frequently offer real "bargains." Mortgages, municipal bonds and securities in small companies, or those distant from the financial centers, do not fluctuate much in market price, simply because they have no big broad market. The offering price may vary, but never suddenly or violently. They run along about the same level.

But prices on the stock exchange fluctuate because of world-wide conditions in no way af-

fecting the intrinsic worth of the securities listed there. The stock exchange is like the open sea upon which winds blow and waves rise high or a great calm prevails. Thus one may pick up bargains on the stock exchange. Stocks and bonds alike sell below or above their normal regular level of prices. It is a place to reap big profits and also big losses. People buy on the stock exchange not so much for a certain fixed income as for profits in the way of an advance in price. This method has its advantages, but also its obvious dangers.

The great point in making an investment is to buy only what you really want and need. There is none that is ideal, any more than human beings are perfect. One man may be a good golf player and kind to his mother but a very poor accountant. In the same way if you look only for safety in a bond, or only for a quick market, you can usually get what you want if you pay for it in other qualities. Just so a man may acquire an immense collection of cut-glass vases, if he sticks to it long enough, but he will sacrifice time and money in other directions.

In the choice of an investment, as in the choice of a house or a suit of clothes or an au-

tomobile or anything else, the primary consideration is suitability. This truth has never been put so well as by Franklin Escher in his book, *Practical Investing*:

"A six cylinder touring car that can make a hundred miles an hour and climb up the side of a house is all very well, but far less suited to the needs, for instance of a country doctor, than is a little runabout costing perhaps one-fifth as much. Just so, in investment, different securities suit different requirements. What for one man would be an ideal investment might be totally unsuited to another's needs. What are my particular requirements? That, in the investment of any sum of money, is the very first thing to be considered. Only after it has been considered can intelligent selection be made.

"What his particular requirements are, each investor must settle for himself. Is he well along in years, dependent on the income from his investments? In that case, absolute safety of principal is the primary consideration. Is he, on the other hand, engaged in some profitable business which yields him considerably more income than he needs? In that case he can afford to take more of a chance. Is the in-

vestment being made for his own account or is he acting as a trustee? Obviously these are considerations to which due weight must be given. Individual circumstances must govern, and what these individual circumstances are, no one can tell better than the investor himself. Determining one's investment requirements is not a matter of finance at all, but of plain every-day common sense.

"There is nothing hit or miss about it. The country doctor can cover his rounds in a big, high-powered touring car that costs him two or three times what it ought to run, and the successful business man can invest his surplus in three per cent. government bonds at par, but in both cases there is a really shocking degree of waste."

Remember that most legitimate securities, like most human beings have some good qualities. The vital thing to know is what good qualities you need. Here are practically all of them:

Safety.
High income.
Chance for a rise in price.
Stability, that is, minimum fluctuation.
Ready convertibility, that is, easy to sell.

The investor who is almost certain to keep his bond until it is paid off is foolish to buy one with a very active market because for the same amount he can get one just as safe which pays a higher income. A person who buys for income only will have to pay more for a security which has a chance for a rise in price than for an equally high income return on something which will not rise in price.

Do you need quick convertibility into cash, safety and the chance of a big appreciation in price, all combined? Then be prepared to pay well for such a combination.

Or will safety and a fair income be enough? Then you won't have to pay so much. You can buy far cheaper.

Know what you want!

There are many experts who regard ready marketability next to safety itself, who would disagree with me in placing high income as the second great essential of a desirable investment. Certainly it is in order to emphasize the fact that if you ever expect to sell your stock or bond, do not buy until you have discovered whether you can sell it. Many persons purchase bonds merely for the interest return with no intention of selling again. But the neces-

sity may arise and you must find out beforehand whether you can sell at all if the day ever comes. Before you buy, ask your banker how much he will lend on it. That is a sure test, an acid test. Too many find, all too late, that they are in possession of securities for which there is no market, which no bank will accept as collateral, and which the promoter who sold them refuses or is unable to redeem.

Mr. William R. Britton, a bond authority, asks this pointed question:

"Would you lend any individual your money for, say, fifty years? Would you take the chances of death, default, disaster, and disease? Never. Then never buy an unmarketable bond. Conditions may change—they always do—in fifty years. Your long-term bond is a long-term contract between yourself and the issuing corporation, and can be broken in only two ways: default by the corporation, and sale by you to another person. This is marketability, and make sure there always will be numerous persons willing to buy your bond without great sacrifice. In fact, ascertain the probability of marketability of a bond before buying, or even investigating."

But there are excessive degrees of ready

marketability, just as there are excessive degrees of safety. Why should the individual have a bond or stock which is quoted every minute on the stock ticker? It may be necessary for the bank or insurance company, but not for you and me.

In the next place it does not follow that because a bond or stock is not listed on the stock exchange it is without a market on the "outside," among bond and brokerage firms. In government and municipal bonds, probably nine-tenths of the business is transacted off the exchange, around among different firms, "over the counter" as the brokers say. Indeed more bonds are bought and sold outside the stock exchanges in several of our large cities than upon them. Moreover just because a bond or stock is listed on the exchange it does not prove that it will be actively dealt with in there. Even some listed securities are more freely bought and sold off the exchanges than upon them.

There is absolutely no rule about discovering whether any particular bond or stock enjoys an active market. If it is part of a big issue of a prominent, well-known company the chances are that it will be readily salable whether it is on or off the exchange, and usually will be on,

unless the stock is closely and privately held. Many investment bankers make it a practise to "take care of" the securities which they sell. That is, they provide a market for them under nearly all conditions. Often a firm will buy back its own securities at a small charge, perhaps of only one per cent.

On the other hand the investor can have no hard and fast assurance that his investment bankers will repurchase securities sold to him. He may buy a bond or mortgage one day and go back a few days later and find the dealers cold and unresponsive. They were enthusiastic enough when they sold it to him. It was a very active, much sought for bond or mortgage then, according to the broker. But now he says there is no demand, and he will offer a price four or five or even ten points below the price of a few days ago. In one sense the stock exchanges are the more dependable markets in that their transactions are openly and publicly recorded. There is no secrecy about the buying and selling "on the board."

As a practical measure, I suggest to those who buy what might be called inactive securities, such as nearly all real-estate mortgages and bonds and stocks of small industrial and

public utility companies, that they distribute their purchases among "successive maturities." That is, purchase one five-hundred-dollar or even a one-hundred-dollar bond coming due in 1920, another in 1922, and so on. In this way you will always have cash coming in. It may be noted that mortgages nearly all run for short periods. It is assumed that a man who buys a three or four-year bond will have no occasion to sell in that short space of time. In other words, if you distribute your maturity dates you will never need to worry about marketability.

In a general way it may be said that all securities running for short terms are easier to sell than those maturing many years in the future. This is particularly true of the short-term bonds of the more prominent corporations. For such investments there is always a demand on the part of large institutions for temporary investment. Then, too, a loan which is shortly to be paid off is more likely to maintain a price close to its face value because every one knows that soon it will be redeemable at that figure. But even if a hundred-year bond is sure to be paid off at its face value a hundred years hence there is plenty of time

for it to fluctuate up and down in the interval.

A long-term bond may droop like a long piece of string. A short piece of string pulls up taut much easier. There is less slack to take up. As pointed out in a preceding chapter, the inexperienced investor must be very careful in the selection of short-term securities. They are of all degrees of goodness and badness.

CHAPTER XVI

ESPECIALLY FOR THE SMALL INVESTOR

THERE is very little excuse nowadays for even the smallest of investors buying unsound securities. Formerly only the fakers offered stocks and bonds in small amounts or on easy terms. There was the savings-bank, sound as a rock, but never offering more than four per cent. and in many cases presenting to the investor an impersonal cold indifference.

But to-day there are hundreds of good bonds and mortgages to be had on easy terms, often beginning with as little as five dollars. Where formerly brokers on the New York and other reputable stock exchanges showed little interest in small purchases, there are now scores of reliable brokers who are only too glad to buy anywhere from one to ten shares of stock for any respectable customer.

There is nó longer any reason for envying the "bloated bondholder." If you have five dollars or ten dollars you can begin to become one. The

one-hundred-dollar bonds are called "baby" bonds, but babies grow up, and from these small beginnings large accumulations grow. The only way to become a large investor is to start as a small one.

There are ample facilities and machinery for supplying the investor with sound small securities. We have not reached the position of France where peasants buy a few francs' worth of government bonds. But the conditions are so different in many ways that such a comparison is hardly fair to this country. The fact remains, however, that not only in New York and Chicago, but in many smaller cities, there are banks, trust companies, investment bankers, brokers and dealers in mortgages who stand ready to supply the small investor with good securities on the easiest terms possible. Ask your local banker to name the nearest dealer in good small securities whom he can recommend. Perhaps the cashier or vice-president of your bank can arrange to buy the bonds for you.

When you buy one-hundred-dollar bonds, you are buying the same bonds that another buys when he invests his one thousand dollars, ten thousand dollars or one hundred thousand dol-

lars. You get a bond issued by the same company, on the same property. The interest and principal are payable at the same time. The security is identical. As a rule it costs only a fraction more, sometimes no more, than the larger bond.

You have in reality one decided advantage in buying one-hundred-dollar bonds. If you have on hand insufficient money to buy a one-thousand-dollar bond, you need not wait until you have saved the whole one thousand dollars. You may buy a one-hundred-dollar bond at once. You may buy another one-hundred-dollar bond when you have saved some more. And so on. All the time, you may receive interest on the money greater than you would receive from a bank.

If you have on hand sufficient money to buy one one-thousand-dollar bond, you may buy ten one-hundred-dollar bonds. In diversifying your investment, placing some of it perhaps in city bonds, some in railroad bonds, some in industrial bonds and some in public utility bonds, you increase the safety of your investment in much the same way that a bank protects its investments.

Another advantage of having small bonds is

that they often serve as satisfactory collateral for a loan at your bank, if you need money and yet don't want to sell your bonds.

In buying one-hundred-dollar bonds it is important to purchase only the safer and less speculative issues. There are some dealers in these small investments who quote and advertise all the bonds in their line, but when a prospective customer actually writes for further information they urge him to take some of the less known, less secure, very high yield, unseasoned securities, on which their own profit happens to be greater than on the better class goods.

Large banks are in many instances offering their depositors the combined advantages of a savings-deposit and one-hundred-dollar bonds. One of the first banks to adopt this plan thus explains its terms:

"As a member of our *Savings Investment Club* you may deposit one dollar per week; we will allow you three per cent. interest per annum on your weekly deposits and when you have the sum of fifty dollars to the credit of your account will lend you fifty dollars. This amount (one hundred dollars) will enable you to purchase a bond (to be held as security for

your loan), which will yield a higher rate of interest.

"Your weekly deposits are to be continued until you have a sufficient amount to pay off your loan, at the end of which time you will be in possession of the bond and be ready to start a fund for your second bond. Or you can become a member of a club in which you make weekly deposits of two dollars, five dollars, ten dollars or more, and purchase a five-hundred-dollar or one-thousand-dollar bond."

The plan is sound. Its main advantage to the depositor is that most of his savings draw bond interest instead of savings-bank interest. If the income yield of the bond is higher than the interest rate he pays the bank on his fifty-dollar note, he makes a further profit. If the yield on the bond and the interest on the note are equal, the transaction will reach the same result as if he bought two fifty-dollar bonds, one after the other. Some institutions offer the same arrangement proportionately to savings depositors who wish to buy five-hundred-dollar and one-thousand-dollar bonds.

The partial payment, or instalment, method of buying stocks and bonds is being used more and more. It is a great incentive to thrift, a

great help to the small investor. But I want to warn readers that almost any instalment method of purchasing goods has its dangers. Stocks, bonds and mortgages are not actually delivered to customers until fully paid for. In case of the failure of the broker or banker the part paid purchaser may have difficulty in obtaining his securities or even the money paid in.

Therefore everything depends on the reliability of the broker or banker. If he is strong, then the plan will prove safe. In actual practise on the New York Stock Exchange at least, there have been no failures due to the partial payment plan, and there have been few, if any, losses.

The essentials of the plan may be briefly explained. An initial payment of from five dollars to fifty dollars, usually about ten dollars, a share is made. Then a regular payment of five dollars a share on the first of each month is made until the stock is paid for in full, when it is actually delivered to the buyer. In the meanwhile he receives all the dividends or interest that comes from the stocks or bonds, and himself pays interest, usually at the rate of about six per cent., to the broker on the unpaid instalments. There is steady pressure to save,

and the agreeable feeling of being on the way to actually owning a share of stock or a bond.

If the investor feels he can not meet his payments he always has the privilege of demanding delivery from the broker of such proportion of the stock as has been paid for. Of course this would not be practical where only one share is purchased.

In buying single shares of stock, or any number less than one hundred shares on the New York Stock Exchange, a slightly higher price, usually one-eighth of one per cent. is paid. This is not true of all other stock exchanges. Usually no broker will buy any stock, no matter how few the shares, for a total commission of less than one dollar and twenty-five cents. These remarks apply to stocks bought through a broker on a stock exchange. Where a dealer in securities has them on hand for sale and does not have to go to the exchange to buy them he charges no commission. Where a commission is charged the broker makes no other profit. Of course where no commission is charged the broker has himself bought the stock at a lower price and makes his profit by the difference in price. Where a commission is charged the

broker simply turns the stock over to his customer at the same price, plus the commission, which he paid for it.

TAKING THE FIRST STEP

No question is more frequently asked by investors than this:

"How shall I purchase bonds? Where shall I buy them, and how am I to go about it?"

Don't invest money with strangers unless you first look into their standing and record. There are countless swindlers and fakers who make it a business to worm their way into the confidence of persons with money to invest. Often, too, it is a safe rule not to combine business with friendships and relationships. Friends may mean well, but too often they are carried away by business enthusiasm. Many exceptions to this statement probably suggest themselves, but I think it is at least wise to check up with a wholly outside and disinterested opinion any advice that a personal friend or acquaintance gives on financial subjects.

In a general way there are three agencies through which bonds may be purchased. Often the bank or trust company where one keeps an

account will arrange to purchase securities for a customer. The bank must ordinarily do this through a broker or dealer, except in the relatively few cases where it maintains a bond department of its own. Then, there are the brokers, both those who are members of the stock exchange, and those who have no such affiliation. Finally, there are the dealers that call themselves investment bankers.

The broker and the investment banker may often be one and the same person. The distinction, however, between the two classes is not a difficult one to understand. A broker is a mere agent, one who acts for another. The investment banker, on the other hand, does not necessarily merely buy securities on behalf of the customer, either on the stock exchange or off, but often virtually creates the securities and offers them for sale as a principal. That is, he buys a large block of bonds directly from the corporation, and usually secures representation on the board of directors and keeps an eye on the management. In actual practise many of the larger investment banking firms are also members of the stock exchange and do business both as dealers and brokers. They deal in bonds on one hand, and on the other, through

the exchange membership, are enabled to buy and sell stocks.

The main point is that the intending investor should form a connection with an investment banker of high reputation, ample capital and much experience. It makes little difference whether the investment banker is a member of the stock exchange or not. There are enough risks in the investment of money, even when one deals with the strongest of firms. Don't add an unnecessary peril by dealing with any other kind.

It is a great mistake to assume that investment banking is solely a commercial activity. The relations of the banker with his customer have been changing from that of seller and buyer to the most intimate relationship of confidential adviser and client. The banker acts in a fiduciary capacity, almost in that of a trustee. Investment is about as complicated as law or psychology, and yet the average person will place hard-earned savings rashly and without advice. Formerly investment was a simple matter. Originally there was only real estate or one's own business to consider. But now there are all manner of companies about which the individual can hope to know little.

Not only must the investor choose which general character of business he wishes to place his savings with, but he must determine the soundness and merit of the particular company. However desirable it may be for the individual to study such subjects as corporation law, corporation finance, management and administration, accounting, engineering and banking, it is none the less impossible for most persons to master so much knowledge. The well established investment banking house employs experts along all these lines, and satisfies itself as to every phase of an issue of securities before recommending them to its clients.

It is not merely the expert guidance which a house of long and diversified experience, successful records and ample facilities has to offer: it is the moral responsibility which such firms are more and more assuming.

The investment banker usually keeps in touch with the property whose bonds he has sold as long as the bonds are outstanding; and often, by advice or moral pressure or some other influence, he is able to prevent ill-considered action, on the part of the owners of the property, that might prejudice the standing of the securities. Thus he not only must assure himself

that the bonds are good when he buys and sells them, but that they will continue safe under whatever conditions may arise. Finally, if the corporation is overtaken by misfortune, the banker will be in a position to aid it financially, or to demand that his clients be treated fairly by the receiver.

There are eleven hundred members of the New York Stock Exchange, and several hundred of these accept business from outsiders. There are perhaps thirty other reputable stock exchanges in the country, the especially large ones being those in Boston, Philadelphia and Chicago. Perhaps as many as five thousand different dealers will buy and sell bonds. Thus it is extremely difficult for an uninformed investor to pick out a broker or an investment banker. In choosing a New York broker or investment banker, the first step to take, if you live elsewhere, is to ask your local bank to write to its New York correspondent for information. This is by far the best method of getting a line on any broker, and your bank will be glad to do such a small favor for you. Even if your bank-account is only a few hundred dollars, do not hesitate to ask this business favor. All large investors do it, and there is no reason

why you should not take the same measure of precaution.

If you expect to deal through a broker who is not in New York, ask your bank to write to a bank in the city where he is in business. If you do not keep a bank-account, ask some friend who does, to get the desired information for you.

The reason I insist all through this book upon the desirability of consulting the officers of the bank where you keep your savings or checking account is that bankers learn by long experience to detect quickly the difference between a fake broker and an honest one, or between a fake investment and a desirable one. It gets to be a matter of instinct with bankers and trained financial experts, whereas with the ordinary layman there is nothing visible on the surface to indicate the absolutely necessary distinction.

If you dislike to ask too many favors of your local bank or newspaper, ask them to recommend a reporting agency. Usually these agencies will make specific reports for moderate fees, often as low as five dollars.

In practically all cases, the financial editors of newspapers will give you an honest opinion

regarding brokers in their cities. Even where the newspapers accept disreputable financial advertising, the financial editors themselves have too much personal self-respect to recommend a faker, and financial writers usually know a faker when they see him, just as bankers do.

One difficulty that I have to meet in answering questions on the general subject of "Whom can I trust?" is that people fail to make distinctions between the trust that may safely be reposed in a reliable broker or bond dealer and the quack or faker. Once having picked out an honest reliable broker, there is no reason why you should not send money to him and order stocks or bonds without the fear of being robbed.

The time to be nervous about one's relationship to a broker is usually before you have chosen him, not afterward. If he has a good standing in his community he will not knowingly or willingly cheat you. You can send him thousands of dollars, and he will not run away with them, because he is receiving far larger sums every day. That is his method of doing business. But first be sure that, in the opinion of bankers, associates and reporting agencies,

he is not the kind of broker that *does run away*, because there are many that do.

Another method to pursue, in the case of a member of any reputable stock exchange, is to write to the president of that exchange for the information. Be careful not to be misled by information on the broker's door or letter-head to the effect that he is a member of the "New York Exchange," or some other purely fictitious organization. That is an old dodge of the regular swindler. In many large cities there are imitation or fake stock exchanges, and you must be sure that your "broker" friend does not use one of these mythical institutions to bolster up his respectability.

Many of the best known dealers in bonds, and also many dealers in unlisted stock, do not need to be members of any exchange. But if a broker buys and sells stocks that are listed on a recognized exchange, he should with few exceptions, be a member of it. Beware the broker who promises very large returns, or who is constantly urging you to shift from one stock to another. Beware the countless small brokers who spring up overnight from nowhere when a boom is on.

Now without taking back a single word of

what I have said about the desirability of forming a connection with a reliable investment banker, I want to urge my readers to learn to look out for themselves. Although many investment bankers have a splendid record, and no business has a higher standard of ethics, yet it is an unfortunate fact that dealers make their largest profits, not from the best, but from the poorest securities. That is because they themselves take more risk with the low-grade "stuff," and have to make a larger profit on it. I do not say they try harder to sell the poorer qualities, but the temptation is always present, especially for the raw young salesman.

You can trust your investment banker or your broker to a large extent, but don't be a simpleton about it. You must look out for yourself in this world. You are your own best friend. Use ordinary caution. Don't be an "easy mark." As already explained, there are two kinds of brokers—those who have stocks and bonds of their own to sell, and those who merely buy for you on a commission on the stock exchanges. The former naturally want you to buy their particular goods, just as any other merchant does, and it may be you would rather have somebody else's goods, even though

the first man is the most honest and high-minded person living. The second kind of broker has no impelling desire to have you buy *any particular* stock, but he has a tremendous desire that you should buy just as much as possible of *some* stock, because his living comes from the commissions on the exchange, and the more you buy the more he makes, although he naturally does not want you to lose, because then he loses your patronage. In one case you must be strong-minded enough not to confine yourself entirely to one line of goods, in the other case you must keep from "over-trading."

Learn, as far as possible, to study investments for yourself. Don't either suspect or trust everything. Either extreme is a sign of ignorance.

A good plan is to ask *several different brokers and dealers* to suggest investments for a given sum. Then compare their recommendations and take what seems the best. If more than one agrees on the same stock or bond, that is likely to be a good sign. Or ask the financial editor whom you trust the most which to buy.

If you are buying through brokers in another city, always secure funds on the city to which you are writing. Otherwise you will make your

brokers a great deal of trouble and sometimes expense. Nothing is easier than to buy at your local bank a draft on the city where your broker is located, or a money order at the post-office or at an express office.

Often persons who have had but little experience in financial affairs prefer not to remit to a broker before receiving the securities, no matter how reliable he may be. This difficulty may be met by arranging the transaction through your local bank. The bank will transmit the order to its correspondent in New York, Chicago or wherever your broker is. The corresponding bank in the large city will turn the order over to a broker for execution, will arrange for the transfer of the stock into the name of the purchaser if so desired, and will deliver the certificate to you at your local bank.

In the case of coupon or bearer bonds, a firm is willing to send them with draft attached on your local bank; but it can not do so with stocks which must be transferred. No broker, of course, would use his own money to purchase stocks transferred to the name of a stranger and send it to him, unless he is in some way guaranteed against loss. The same is true of registered bonds. The moment a broker regis-

ters a bond or transfers a stock he loses all title and interest in it. Coupon bonds are those which have small detachable certificates for the collection of interest. A registered bond and transferred stock are those the names of whose owners are written in the company's books.

If you live anywhere near a safe-deposit vault or a bank that has one, rent a box at from two dollars to ten dollars a year and place your securities in it. Banks are more and more offering safe-deposit facilities, and in almost every town of five thousand inhabitants there is at least one institution where one may rent some sort of safe-deposit box. The positive statement has been made that nothing placed in a safe-deposit box has ever been lost except through the carelessness of the owner. Certainly I have never heard of any one losing money or valuables placed there. They are proof against burglars and fire alike.

If you can not obtain this very cheap form of insurance, lock up your bonds and stocks in a tin box, and make a duplicate or even triplicate list of them, including every detail, such as the number, amount, rate of interest, name of corporation and all other pertinent facts. Then keep these lists in different places—one in your

office, another in your home, and a third in still another place.

There is not much danger incurred in the loss of a registered bond or one that is registered as to principal. Only through the forgery of your name can you suffer loss because of the disappearance of such a bond. But coupon bonds are almost as readily negotiable as a ten-dollar bill. The loss of a coupon bond necessitates all manner of annoyance and trouble in having a duplicate made out. On the other hand, it is much more difficult to sell a registered bond, and often the annoyance involved is great.

In the case of stock certificates be sure to have them written out in your name, and transferred on the books of the corporation in your name. If that is done it will be very difficult for anybody else to negotiate them. Do not write a word on the back of the certificate. If you lose a share of stock, notify the transfer office of the corporation at once; and also, in case of the loss of any kind of security, notify the banker from whom you purchased it.

By far the safest plan is to lock up all your securities in a safe-deposit vault, and then you will be safe in owning coupon bonds, which are far easier to sell than other kinds. Do not

make the mistake that, strangely enough, is constantly being made—of cutting off the wrong coupon or of cutting off more than one at a time. Every coupon has the date plainly printed on it, and only by gross carelessness can an investor make that kind of mistake. Do not deface bonds or stocks in any way. If you are keeping them for investment, lock them up and leave them alone.

CHAPTER XVII

HOW TO AVOID LOSS

THERE is no such thing as a sure remedy against losing money through investments. That is a sad fact which savers of money might as well accustom themselves to at the beginning of their careers. And the reason no investment is perfect is because human beings and all their works are full not only of imperfections but of change, chance, risk and hazard. Who can tell what the future will bring forth? It takes no flight of imagination to picture a time when railroad tracks will be worthless because all freight will go in large air-ships. Perhaps not in fifty years, perhaps not in a hundred, but the time may come.

I am not dealing in fancy, but in sober fact. Only ten or fifteen years ago bonds of ferry companies operating between New York and Brooklyn were considered good investments. They are worthless to-day because bridges and tunnels have destroyed their value.

Entirely aside from dishonest, bad faith and mere quackery all business enterprises are subject to countless hazards. Such influences as poor management, natural depreciation of physical property, new inventions, unexpected and destructive legislation, disappearance or change in demand for specific articles, violent changes in the general level of prices or in specific prices, excessive advances in wages, war, fire and physical calamities—all these tend to destroy investments. It has been said, perhaps it is an exaggeration, that no business is good for more than a generation. One thing we may be sure of, present possessions can not be exchanged for future incomes without risk. If you buy a bond it is a contract to pay money in the future and no human being can predict the future or be sure of living up to a future contract.

There are two great facts which face any one who really studies this subject of investment—one is the risk inherent in all outlays of money and the other apparently contradictory fact is that thousands of people *actually do make good, successful investments.* But is there really any contradiction here any more than throughout life in general? For instance, we know there is

a great deal of unhappiness in the world and yet many, many people are happy.

Now, I assume that the first desire of every investor who is likely to read this book is to avoid loss, both of his principal, that is, the money he invests and of the interest, which is the return he expects to receive upon it. But only a few extremists desire what might be called absolute safety, that is, safety over a long stretch of generations, safety forever.

There have been people who owned stocks which had paid several hundred per cent. in dividends over a reasonably short period of time and then the stocks declined in value and the owners cried out in dismay. They were very foolish, selfish, near-sighted people. For example, if some of the early purchasers of Standard Oil or Calumet & Hecla stock, both of which have paid out untold fortunes in dividends, should complain if those stocks happened to suffer, the world would laugh at them.

All we can reasonably ask is that investments should keep intact for a generation or perhaps two generations and pay moderate returns. Certainly no man has a right to expect more than to provide for his old age and give his children a start in the world. He has no right

to place a burden of interest charges upon the back of unborn generations. An investor lends money for a definite purpose and expects to get his money back and moderate interest for a reasonable length of time until the principal is repaid. He has no right to expect the loan to go on earning interest forever, because the purpose for which any loan is made seldom outlasts a generation and to keep its charge alive forever is unfair to posterity.

With this modified and common-sense idea of what safety means, let us see just how to go about investing money so as to prevent loss. This chapter is going to be practical in the extreme. It is drawn from extensive experience rather than from theory. If my rules appear to be negative, if the word *don't* appears on every page, let the reader remember that this particular chapter is concerned with only one idea, how to avoid loss. How to invest after one has learned how not to invest is far simpler than starting wrong and then realizing one's mistake after the barn door has been flung wide open and the horse has gone.

This book is written for the young man and woman of limited means rather than for the professional capitalist, the banker and the cap-

tain of industry. Now even the young person of limited income can perhaps afford to take some risk, if he has a business of his own, but he can not afford, and it is positively wicked for him to take risks in enterprises which he knows little about. Remember that the poor man loses all if his first venture goes wrong, while the capitalist, the banker, the captain of industry lose only part.

The capitalist makes a business of investing money. He loans money as a grocer sells sugar. It is a commodity to him. He has it for sale. He is prepared for large or small losses, because his profits come from the average return upon his investments, not from any one of them. He is protected by the law of averages. Risks are a part of the scheme of business, but they should be shouldered only by those who can afford them. They should be borne by men who know how to play the big game of speculation.

PRACTICAL RULES FOR AVOIDING LOSS

This book is not written to tell men how to succeed in private business where private capital is concerned. I am interested, in writing this book only in what might be called, to use a

rather long word, *vicarious* investments. Thus, we say, John Smith not only owns his business but he has some investments besides.

What I mean is this: where a man goes into a business he knows all about and puts in not only his money but his time, brains, skill and executive ability he expects large returns. That is not the kind of investment we are considering. That is not a subject which any one book can begin to cover. But most young people nowadays can not invest directly in an enterprise which they can manage or take part in. What they can do and what I humbly hope I am telling them something about, is how to *divest* themselves of the direct care of money, how to give it to others to work with, how to loan it out to earn an income, without actually having to know all about the business itself.

In a sense any placement of money in any business is an investment, but it is not so in the strict sense we generally mean when we use the word. This is clearly a case where there are no words to express exactly the meanings that need to be expressed. But my readers all know what I have in mind. In these days when countless thousands of persons must loan money to others to work with, that is, *invest vicari-*

ously, there has grown up a science of investment of this indirect sort.

Now perhaps the one most frequent cause of loss is that people fail to make this intangible and perhaps difficult but very real and vital distinction. They fail to perceive that when they contribute nothing but money, no brains and skill and time, they can not expect the same returns as when they contribute everything. If you give money to others to work with they must earn not only enough with it to pay you a moderate income but something over for themselves.

And where you give money to others to work with, don't give it to one man. That is too dangerous, unless you know all about the business, and then it is not investment at all in this sense. What you are trying to do is to make money work for you, not work yourself, and to do that safely you must place it where it will be used by conservative and experienced men—*not by one man*—where it is subject to the care of a composite organization.

Many enterprises are essentially suited to the employment of private capital and should not receive the reservoirs of savings from countless small investors. Your common sense will

tell you which sort of enterprise should be left to private capital, if you only stop to think about it, and I will add something to your own native sense from my special study and experience.

What you want is some safeguard, some bulwark, between the countless vicissitudes and fortunes of the business world and your own hard-earned, hard-saved money. Don't make the mistake of blundering into business when what you really mean to do is to make a safe conservative investment.

Don't *speculate* when what you should be doing is to *invest*. Perhaps this is only another way of saying what has already been said. Now the great difference between investment and speculation is that in the former one gets a minimum of profit and risk in return for a maximum of regular, steady income. What the investor asks is regular income, not profit. But the speculator is willing to forego income in return for a profit later on. Remember:

Investment means income.
Speculation means profit.

Now it is important to note that the invest-

ments of to-day were almost always the speculations of ten or twenty years ago. There could be no investment without there first being speculation. First comes risk with the hope of large profits, often unrealized. Then comes certainty with moderate income. If a project proves successful then the speculators, the enterprisers, the risk takers, are likely to sell at a profit to investors, who when the once uncertain venture has become a settled industry take virtually no risks.

Now this financial burden of translating the speculation of to-day into the investment of tomorrow is a tremendously important one. But it is a highly hazardous business and it should fall upon shoulders strong enough to bear it. Are your shoulders as strong as that?

"But," say some people, "one really luck venture is worth a life-time of labor and years of what you call investment, which is nothing more than putting money into depositories for funds and is a very cold, abstract, impersonal, distilled sort of thing anyway."

Let us see about that. How about compound interest? Where does that come in? The truth is that a regular four, five, six or seven per cent. interest, year after year, is really just about

as profitable as a speculation that pays no return for several years and then rushes up with a bound. In six months' time alone a steady going, five per cent. bond is just as profitable as a two and a half point rise in the stock market. I know a concern that has been selling stock for ten years without paying dividends, and the owners think that some day they will be rich, but they seem to forget that their stock will have to rise from seventy to eighty dollars per share merely to equal the income from an ordinary five per cent. bond.

But this is not all. The sort of investment which one associates with the idea of interest is pretty sure to be a safe, steady, stable, regular paying one. No one would ever suggest compound interest at all if he did not have that kind of investment in mind and did not know that lots of them are to be had. But how about the speculations that never "pan out" at all? I suppose about three-quarters of so-called speculations never amount to anything. Thus the investor is no worse off than most of the speculators who win and he is certainly better off than the seven out of ten speculators who lose.

Of course there is the one good thing which makes a thousand per cent. But even the most

financially unsophisticated person knows how rare they are. The millionaire who buys thousands of different securities is pretty likely to strike one of these "gold mines." The law of chance is working for him. But how does the law of chance work, I hardly need ask, when the man of small means takes a single throw at the gambling table?

Don't try to make money with a leap and a bound. Proceed quietly and slowly. Don't try to get rich quickly unless you are prepared to put everything you have into the game—money, skill, education, training, physical strength, time and experience—and even then don't you realize that many, many people who give all of that and more fail in the end?

Don't put everything on one throw of the dice, unless you know they are loaded—in your favor. Read what Bruce Barton, editor of *Every Week*, has to say on this subject:

WE ANSWER A QUESTION

"A reader writes this letter to Mr. Atwood, whom we employ to advise our readers how to make their money earn more money:

" 'Why do you spend all your time in advising

us about bonds, and farm mortgages and gilt edge preferred stocks? No man can get rich by investing his savings in gilt edge stuff. You know that one lucky investment is worth a lifetime of saving. Why don't you help us to find that one lucky investment?'

"We have decided to answer this question ourselves.

"In the first place, it is not the purpose of Mr. Atwood's department, nor of this magazine, to help readers get rich. The purpose of this magazine is to help its readers to be more useful men and women. And the most useful men and women in the world have not been the richest.

"Jefferson, who wrote the Declaration of Independence and added to our country the great area west of the Mississippi, was reduced to poverty in his old age.

"Lincoln, who saved the Union, had ten thousand when he was elected President, and said he hoped some day to have twenty thousand, which was 'all the money any man ought to want.'

"Agassiz, the great scientist, said: 'I have not time to get rich;' and most of the men who

have rendered the largest service to the world have felt likewise.

"If you want to know the second reason why Mr. Atwood advises you to save instead of speculate, read the inventory of the estate of the next rich man who dies.

"See how much junk is in his safe-deposit vault.

"Notice that the real money he has made has been made by hard work in some enterprise of real service to the world. The worthless stocks and bonds in his strong box, the junk, represent his occasional efforts to get rich quick through what our correspondent calls a 'lucky investment.'

"Insurance men state that most men at the age of forty have saved something; but nine out of every ten men who reach the age of sixty-five are dependent.

"Why?

"Partly because they have lost the savings which would have made them comfortable, in trying for lucky investments to make them rich.

"This is the reason why Mr. Atwood's articles are all in favor of solid investment instead of lucky investment.

"Follow his advice. Put your money away at

six per cent. Your friend who puts his money into lucky investments may possibly strike a lucky one after years of trying. But the chances are all against him; even with good luck he will probably not have any more in the end than you have gained through saving and compound interest.

"And you will have peace of mind and good digestion long after he is eating toast and tea."

Seek expert advice. Many people lose money when they invest because they consult friends no better equipped than themselves, who know not a bit more of the science of the subject than they do. If they are ill they call in a responsible physician; if in legal entanglements, they without hesitation consult a reliable lawyer; but when it comes to employing all the money which good health and freedom from expensive litigation have perhaps enabled them to accumulate, they take the first "tip" from a passing acquaintance.

To me there is something almost uncanny, mysterious at least, about the free and easy way in which people invest on the say-so of any irresponsible acquaintance or newspaper paragraph. Perhaps it is because the expert is cold-blooded, and looks at finance from the cold,

scientific and impersonal point of view that the physician looks at disease. This manner repels people when they are in the investing mood. For then they have a sort of big, sentimental, warm feeling that they are going to make all the money there is lying around. They don't like the keen scrutinizing look of their banker when they tell him of the "good thing." Ed. Howe, who for many years was famous as the wise and witty editor of the Atchison, Kansas, *Globe*, was not considered a financial expert, but he had "horse sense" enough to write these pungent remarks about seeking expert financial advice:

"Every man has a bank-account; his banker will find safe investments for him. Bankers are men of financial experience, and ninety-nine per cent. of them are intelligent and honorable. There is no excuse for a busy man losing his savings. Many women, when they come into possession of money, lose it because they invest it in schemes bankers would not trust; or else the women loan their money to men who could not borrow money at a bank. Everything in life is simple and easy, if we would only accept experience and be careful of big and sentimental notions."

Learn from experience, but preferably from some one else's experience. Your banker is usually a safe guide in selecting investments, just as he can be trusted in selecting a broker. He has had experience in investing the funds of his depositors, his knowledge of pitfalls, his observance of money failures and successes qualify him to speak. Above all he has a cold-blooded way of impersonally looking at money matters, which I repeat and insist, is a necessity in sound investment.

Always judge any bond or stock by the company it keeps. This rule knows no exception. Other things being equal bonds sold by honest reliable dealers are certain to be better than those sold by persons of another stripe. Of course, there are securities so well known and established that the fact that they are sold by brokers of doubtful reputation can not injure their standing. But, in this particular case, the joker to look out for is that the broker delivers the bond at all, or, if he does, beware lest he charge you too much. In other words, be sure first of all that the game is being played according to honest rules, which means by an honest man. How to find an honest broker is described in detail in the previous chapter.

The most elementary common sense teaches us that to obtain safety one must *distribute* the risk, or as bond dealers say, "diversify" one's investments. Insurance companies and savings-banks are safe just because they distribute the risk over a wide area. One issue of bonds may turn out badly, but the loss is averaged down to almost nothing because other securities turn out well.

Never keep on making investments in the same company, the same locality or the same industry. By diversification investors increase the average return on their money and fortify themselves against adverse conditions, which might otherwise affect only the one type of investment, or the particular section of the country in which all of their money is employed.

Of course individuals can not distribute their money around so widely as big institutions do, but the great majority of investors can take this precaution against loss more than they do. Most of us are lazy, and if we find one type of bond or stock which suits us we stick to it.

Don't buy securities of any company which is not engaged in a reasonably necessary and stable business, unless either you have made an unusually careful investigation, or unless the

company has an accumulated surplus so large that its bonds and stock could be paid off at any time, or unless the property could easily be turned to another use. Try equally to avoid industries so monopolistic as to invite public hostility or which are excessively competitive.

Highly competitive industries may be all right if the company already possesses an efficient organization and an established name. Use common sense in this respect. Stock in a company which makes a patent curling-iron is not so likely to be a suitable investment, other things being equal, as stock in a company that manufactures every kind of steel on the market or which supplies electricity to thirty different towns. Try to stick to fundamental industries, where the demand is broad, stable and permanent. Novelties and articles of luxuries are usually to be avoided. If the products are varied in character so much the better. If a railroad, the more classes of freight the better. Be sure the source of supply is secure, if a manufacturing company.

Keep away from new inventions and from single patented and proprietary articles. Let the other fellow put his money in them. They are all right for private capital, for the man

who is on the ground. Most new inventions result in loss to their backers. Even if the invention itself is useful it may require too much capital and time to make it commercially successful. In fact there are inventions too wonderful to be commercially successful. Of course fortunes have been made in new inventions, but even greater sums have been lost. Usually the profits predicted are so enormous that one wonders why the original owners do not keep the "good things" to themselves. The simple truth is that where promoters have something which will return enormous profits they do not need to go to the public for funds. Money is never given away in the business world and it pays to be suspicious of those who pretend to give it away. The only concern that should go to the general public for funds is one which can promise fairly sure and reasonable returns, never the one that is likely to make either excessive returns or nothing.

One observation should be made regarding for example a new patent soft drink sold at soda fountains. How are we to know that the public will like it? Common sense ought to keep investors away from such things.

Stocks in mining and oil companies, with a

few notable exceptions; in fruit and nut orchards, rubber and banana plantations, and lumber development schemes; in the bulk of moving-picture concerns, and in new insurance companies should be reserved for especially careful investigation and not invested in until they have been thoroughly proved and placed on a basis where the permanency of the earning capacity is established beyond peradventure. Several of them require perhaps more than the usual amount of expert knowledge with which to cope with the peculiar elements of uncertainty that characterize them.

The financial position of the company and of your security in it, is very important. You do not have to be an accountant to analyze the financial position of your company and the bond or stock you are buying. If it is a bond, the nearer it is to being a first mortgage the better. If it is a railroad bond, is it a first mortgage on profitable or unprofitable lines? If an electric lighting bond is it a mortgage on a power house in use or abandoned? The more essential and profitable a portion of the company's property it is a mortgage on, the better. Next as to earnings. Conservatism requires that earnings be at least double the interest re-

quirements on all bonds and debts, and ultra-conservatism requires that this should have been the case for several years past. Are earnings increasing? So much the better.

Don't let any faker tell you that only future earnings matter, and that the dead past should bury its dead. To be conservative, an investment should be backed up by large earnings, past, present and future. And be sure the earnings are real. If the company does not allow large amounts for depreciation, for worn-out and unsalable property, it is fast running into trouble. A certain company which sold its stock broadcast reported big earnings for years. But when it finally ran on to the rocks people learned that the big earnings were only on paper, because nothing had ever been written for goods which had been manufactured at great expense but for which the demand had long ago ceased.

Look at the company's balance sheet for its statement of bills and notes payable. If this debt is large and there are no offsetting liquid assets, let your most unpopular neighbor buy the stock.

Don't be such a chump as to buy stock or bonds in a company that does not conspicuously

publish its balance sheet, a statement of earnings, the amount of stock, bonds and notes issued and the par value of the stock. In plain English, don't be a sucker.

Don't buy stocks from strangers whom you know nothing about or who represent firms you have not heard of. Above all don't be so foolish as to suppose you have been picked out for special honor. Stocks and bonds are honestly sold usually in one of two ways, either publicly to all who will buy, or else privately to special persons because of business acquaintance, actual friendship or for some special business reason, such as when the person approached is a customer or a dealer who can assist the company. If a complete stranger writes to you or calls upon you in an attempt to sell stock and gives as his reason a personal interest in you, sick the dog on him.

In one case a woman received a beautifully engraved certificate telling her that she had been invited to buy stock in a highly risky concern (this is my description of it, not the agent's), and further stating that she was "invited guest No. 626, and that only one hundred and six persons of her state had been so in-

vited." Of course, such a method of selling stock smacks of quackery.

Whether it is the best way of doing business or not, the fact is that legitimate investment securities are sold in a calm, matter-of-fact, businesslike manner. Don't let any one persuade you otherwise. Especially beware the promoter who drags his own feelings in. A rather unsophisticated investor in the course of a little more than two years of dealings with a notorious Chicago promoter, received one hundred and fifty letters, and the investor wrote that Mr. ------, the promoter, seemed to be a "proud sensitive man." Of course, the "proud sensitive" tone was purely buncombe to fool the unwary.

Don't buy stocks the literature describing which deals mostly with generalities or good advice, such as the advantage of saving money. At least nine-tenths of a stock circular should be devoted to describing the particular company, giving details of properties owned, their location and indebtedness, the earnings of the company for a series of years, balance sheet and so on. No modification of this rule may be admitted in the case of any form of railroad,

light, power, gas, telephone, manufacturing, mining, trading or mercantile company.

Be suspicious of all flashy "flossy" literature, full of red ink.

Avoid stocks whose promoters do any of these things:

Ridiculing of conservative savings-banks.

Denouncing Wall Street (which may or may not be a very bad place, but is invariably denounced by stock promoters for their own selfish purposes and to throw a blind over their own operations).

Selling the stock at some absurdly low price, such as two or three cents a share.

Attempts to work the hurry-hurry game and declaring that the present allotment of stock will soon be exhausted. Even if it is, which is unlikely, there are literally thousands of other good investments, and several thousand legitimate, reputable brokers, bankers, banks and trust companies ready to sell them to you. If any one tries hard to sell you something which he says many others are eager to buy, it is likely to be to your advantage to let one of the others buy it.

Calling attention to the profits of some other company instead of their own. This is the

surest sign of an illegitimate stock. Especially beware of any concern that calls attention to the profits of the Bell Telephone Company. Practically every swindler in the country uses this company as an illustration.

Don't buy stocks the promoters of which promise dividends of several hundred per cent. almost right away. Even the richest companies in the world rarely pay big dividends in the early stages. The Bethlehem Steel Corporation refused to pay any dividends for years. If a promoter promises enormous dividends shortly and his predictions were really probable he would not be selling the stock less than several hundred or even thousands of dollars per share.

THE END